INTERNATIONAL TRADE

TARIFF AND COMMERCIAL POLICIES

INTERNATIONAL TRADE

TARIFF AND COMMERCIAL POLICIES

by

ASHER ISAACS, Ph.D.
Professor of Economics
University of Pittsburgh

1948

RICHARD D. IRWIN, INC.
CHICAGO, ILLINOIS

First Printing, January 1948

PRINTED IN THE UNITED STATES OF AMERICA

TO

FLORA AND RUTH ANN

PREFACE

A WRITER who adds another book to the shelves of an already crowded library owes an explanation for his action. There are good reasons for another book in the field of international trade, the tariff, and other commercial policies at the present time entirely aside from any new material, new arrangements, or different analyses.

In this Preface, mention will be made first of the broader issues which the book covers, and then some indication will be given of the nature of the book itself. In a very real sense the nations of the world are at the end of one era and the beginning of another. What the new one will hold can best be predicted from an understanding of what the past eras were like. How to meet the issues of the new era may also best be indicated by how the world has met the problems of past eras. It is a sign of intelligence to recognize mistakes made in the past and to avoid their repetition in the future. It is likewise a sign of intelligence to pick out the promising ideas of past eras which found no chance of survival in the past and nurture them in a more favorable future.

In our colleges and universities today, and for years to come, the majority of students will have the usual process of education reversed for them. It used to be customary for travel in foreign lands to climax the completion of a college education or to come years later. Today the students are those who have seen other lands under conditions of international chaos, and now they have come back to complete their education. No longer is it possible, as it once was, to teach in a more or less idealistic fashion on the premise that, in later years, more of the truth will be absorbed. Students today have a rather ugly conception of the truth, and what they wish to learn and apply is the result of all that they have seen.

In his classes in international trade the author has a considerable number of young men who have served in the merchant marine and in the armed forces in every theater of the war. They are somewhat impatient of theory by itself. Yet they realize that the reality they have seen is not an isolated thing but must be a part of a larger picture. They are looking for the background of international relations in order to answer the questions which World War II awakened in them. But what is more challenging, they are looking for what students of every era seek, namely, a foundation on which to base their interpretation of the future.

Gone is the indolent reception of facts as abstractions. No longer do references to distant lands fall on indifferent ears. The teacher who uses an illustration from Japan or Iceland in the course of a lecture now finds himself talking to young men who have been in these places and who are in a position to enrich the discussion or question the conclusion. The same is true of commodities. A textbook must be of such a nature as to capture the imagination of this type of student as well as future students, for whom the world is rapidly becoming smaller.

The traditional book on international trade has usually fallen into one of several classifications. Sometimes only the briefest analysis of international trade history is offered. At other times, an overabundance of theory is accompanied by the driest crumbs of application. Again, sometimes a text has virtually ignored the geographical basis of trade or has omitted all reference to the economic aspects of international law. Another text might omit consideration of the political forces which shape the tariff and develop other trade policies. Too often, the portrayal of the case for and against a high and a low tariff has followed threadbare usage. Some texts in effect have virtually failed to show the *international* character of trade by confining discussion essentially to the viewpoint of the people of just one country.

The present volume has been written with a new approach, not only to portray the principles and policies of the subject but also to orient the subject in terms of history, geography, politics, international law, human relations, and economics. In the process, it is hoped that the student, too, will be oriented and will tie together his experiences and his education into a workable whole. The text stresses the two-sided nature of international trade, showing repeatedly how the act of one nation affects another. It approaches the subject of the tariff and tariff arguments in an original manner by printing for the student, and later analyzing, the planks on the subject from each party platform. All through the book the author has sought to do more than offer another book on trade. He has tried to give the student the "feel" of the subject.

The book is divided into five parts which lend themselves to rearrangement as the individual teacher sees fit. Part I deals with the nature of trade policies in general, with early trade, trading devices, and the theories underlying that trade. It considers, likewise, the revolt against ancient and medieval theories and the emergence of the protective tariff as a basic policy. At the end of the first chapter of this section, a list of topics suitable for papers of varying lengths, oral reports, and projects is offered to help the student become a part of the international trade field. Review questions are also offered at the end of the chapters in the book.

Part II is a study of the tariff in the United States from the earliest beginnings of the nation up to the present time. It includes the problems of

tariff-making, the work of the Tariff Commission, and a thorough discussion of protectionist, revenue, and free-trade viewpoints. Part III studies the tariff and closely related policies in Europe and Asia. Part IV covers the same topics for the countries of the Western Hemisphere. Attention is given to the vitally interesting question of inter-American relationships as well. Part V takes up the problems and policies of international trade growing out of geographic conditions and sovereignty. The policies of control and restriction, the cartel, the merchant marine and air transportation, and the numerous aids extended by governments are considered. The final chapter, entitled "World Movements Toward and Away from Freer Trade," shows the interrelationship of the policies employed historically and currently, and may be looked upon as a sort of charted course over which nations have passed and toward which they seem to be moving.

The author is indebted to the inspiration of his teachers—Frank William Taussig, great teacher of economics, George Grafton Wilson, eminent authority on international law, and many others. He has tried to bring to this book the experience of over twenty years of teaching as well. He wishes to acknowledge the warm encouragement of his colleagues at the University of Pittsburgh and the friendly interest shown at all times by Dean Vincent W. Lanfear of the School of Business Administration.

ASHER ISAACS

UNIVERSITY OF PITTSBURGH
November, 1947

TABLE OF CONTENTS

PART I. HISTORY AND THEORY OF INTERNATIONAL TRADE

APPENDIXES

INDEX

LIST OF ILLUSTRATIONS

CHARTS

MAPS

LIST OF TABLES

PART I

HISTORY AND THEORY OF INTERNATIONAL TRADE

Chapter I

INTRODUCTION

Purpose of the Introduction. The purpose of this Introduction, frankly, is to arouse the reader's interest in the tariff, international trade, and commercial policies. This field, however, calls for more than an interest on the part of an educated person. It calls for his concern if peace is to mean anything except the transitional period between wars. The average college student does not read in the field of international trade until he has studied the general principles of economics. In the latter course he probably has covered a chapter or two devoted to international trade. But his impression of economics usually remains that of purely a national economics. He fails to realize that production, exchange, consumption, distribution, human wants, utility, scarcity, value and price, and competition and monopoly are international and world-wide. It is one of the purposes of this book to broaden the student's horizon and suggest the interdependence of economic life; to emphasize how attitudes in any Latin-American country have far-reaching influences in the United States; and to show how our laws and economic activities affect life in Britain, China, and the islands of the sea.

We are likely to view other nations as abstractions or regions instead of as aggregates of human beings, who, like ourselves, seek to maintain life by satisfying many human wants and by longing for many others which are difficult to fulfill. Too many people regard Cuba, for example, as an island which produces sugar, instead of as the home of many fellow-human beings who produce sugar in order to buy the other necessities and comforts of life. The Brazilians surely have a reason for existence other than that of supplying us with coffee; the Bolivians likewise were placed on this earth for other enjoyments besides digging minerals for our consumption. And we, in turn, (Foreign newspapers please copy) are here to serve purposes besides supplying funds to debtor nations and manufactured goods to less developed countries. There is, then, the human side of international trade which we must keep in mind. It should be the most important consideration.

The Influence of International Trade and Commercial Policies. International trade and commercial policies exert an important influence in our daily lives. It is not necessary to believe in the commercial causation of war and international conflict (although the flag follows trade just as

truly as trade follows the flag) to recognize that there is a potent cause for enmity in the unequal geographical distribution of essential raw materials, good harbors, and fertile soil. In the calm and peace of a classroom, it is easy to argue that if a nation lacks oil it should buy a supply from another which has it in abundance. Most individuals have learned to do just this. Indeed, this is the very essence of normal business today—the selling of goods and services to others who need them in return for money or other goods and services. Nations are less advanced than people, however; and they still hold to an alternative, namely, taking raw materials away from their more fortunate neighbors, both close and distant, weak and powerful. This has been done through outright capture or accomplished through imperialism, spheres of influence, colonization, mandates, protectorates, or as a part of "the white man's burden"—especially where precious stones and much-needed materials abounded.

There have been forces at work in the world which have sought to place international relationships, economic and political, on a higher level. Some of these forces seem to be reaching a goal in the form of Bretton Woods Agreements, the United Nations Organization, and so on, today. But there are nonco-operative forces of extreme nationalism and unyielding sovereignty which may delay this achievement. It is not safe to predict peaceful relationships when a single cannon shot can upset world equilibrium.

The Services Rendered by International Trade. It is a commonplace that no nation is self-sufficient and that some nations produce more raw materials than they can use. But the average man or woman seems to realize this in the abstract without applying it to his or her actual purchases. A man visits an automobile showroom to buy a car. To him it is a complete unit, skillfully assembled at Detroit, embodying certain features which the advertisements have told him to look for. He does not realize that, except for international trade and the policies controlling it, he would not have an automobile. The rubber that is used not only in the tires but in scores of other parts of the machine is not produced in this country but must come from Latin America, British Malaya, and the Dutch East Indies. Its price is not set in Detroit but by international forces. Neither does he realize that the chromium which gives such an attractive finish, the tungsten, the manganese in the steel, and the shellac which is basic in the enamel—to mention just a few items—must be brought in by rail and ship from "foreigners"; and that these "foreigners" buy back these materials in the form of automobiles. Our experiences during World War II have made us more conscious of the strategic importance of raw materials but have not made us alert to scores of other considerations.

Let us recall the reading lesson used many years ago in some of our public schools. A family is seated at a breakfast table, and a discussion

takes place regarding the source of the food, cutlery, and table accessories. The child has taken the position all too commonly assumed that the dishes come from department stores, the food from grocery stores, and the morning newspaper (with apologies to Emily Post) from the newsboy. The father, in turn, brings out that the dishes are made out of clay, much of which comes from England; that the silver might have come from Mexico; that the coffee comes from Brazil; that the sugar comes from Cuba; that the marmalade comes from England; that the table linen comes from Ireland; that the table itself comes from a Grand Rapids manufacturer who obtained his lumber from Brazil; and that the wood pulp for the newspaper comes from Canada. This elementary lesson takes on real significance when we realize that our tariff lists over 20,000 items which come from other countries.

International trade is interesting because it helps to assemble the things each nation needs. It meets us when we buy a chocolate bar, when we order a vanilla soda, when we purchase chewing gum, when we spend "a nickel," when we look at a mercury thermometer, when we admire a silk scarf, enjoy a cup of coffee or tea, or eat a banana split. It confronts us each time we make a telephone call since half of the metals and minerals used must be imported. It meets us in the form of platinum rings and diamonds. It greets us each time some canned food is opened.

Imported products mean shipping arrangements, marine insurance, tariffs and customs procedures, scores of other restrictions, and problems of payment. In short, international trade has so interwoven itself with our price system, our standard of living, and our daily lives that we should be concerned with tariffs and other commercial policies which make difficult or facilitate acquisition of the commodities we need and the shipment abroad of those which constitute a surplus.

An import and an export are one and the same. The country that sends it out calls it an export; the country that receives it calls it an import. Yet this simple truth is hard to grasp. We seem to forget that, when we restrict imports, we are restricting another nation's exports; that, when they restrict their imports, they are restricting our exports.

The Two-Sided Nature of International Trade. One of the lessons we have failed to grasp is this two-sided nature of international trade. The nation that does not buy cannot sell over any period of time. Exports of goods and services do pay for imports, even though we use money or claims to money and pretend that we have got far away from barter. Our nation is so great and so large and seemingly so nearly self-sufficient that we have not taken the trouble to understand the implications of international economic relations. We seem to think that it is perfectly proper and just for us to set up high restrictive tariffs, to "dump" excess goods into the markets of another country, to enter into cartel arrangements, to

preach "Buy American," and to put other restrictions in the way of imports into this country. But we do not take kindly these same actions when they are directed against us. We do not like it when France sets up high restrictive tariffs against our exports; when Czechoslovakia dumps shoes in our markets; when Belgium fosters cartels; when Britain emphasizes "Buy British," or when other nations put stumbling blocks in the way of our goods in the world market.

Now let us not misunderstand the point that is being made here. We are perfectly within our sovereign rights in acting as we have. But the other countries are also perfectly within their sovereign rights in acting as they have acted. Yet, somehow, we have not succeeded in picturing the fact that the word "international" necessarily means at least "two" sides to the relationship. "Inter" means "between." "Between" suggests "two" at least. Hence, good sovereign acts from one point of view can tinge of economic warfare from the other nation's point of view. For example, let us look at the importation of bananas. From our point of view, they form but one import among thousands of other commodities and come from any of a number of Central American countries. With no malicious intent, we could adopt legislation which would bar the bananas from Honduras because of the leaf-spot disease. But what is one import to us happens to be the chief export of Honduras; and what is of minor significance to us (the average family would not even notice the lack of Honduran bananas) would be a major catastrophe to the economy of Honduras, with political repercussions as well.

This putting ourselves in the other fellow's place is not suggested as a bit of sentimentality. It is just good business and hardheadedness. A good businessman at home is rightly concerned about his customers' welfare and the welfare of the wholesaler and manufacturer because, if either end dries up, business itself dries up. A businessman who loses his customers or his sources of supply is in a predicament no matter how great his capital or how good his intentions.

We must make an effort, then, to understand the motivations and problems of other nations in terms of the world economy rather than purely in terms of ourselves. Peculiar circumstances in 1789 prevented us from having export taxes, while the imposition of import taxes was the first act of our Congress. It is only natural for us to view with surprise the export tariffs of other nations and to consider import tariffs as natural. But for countries with export duties, they, too, are natural. We might regard a free trade country as unusual, but in terms of its own economy we might look unusual to them.

Other Factors Shaping Our Attitudes. Other factors, too, have given us a limited outlook on international trade. One of them has been our geographic position. Three thousand miles of ocean served for a long

time to give us the protection of distance against European and Asiatic goods and to some extent against European and Asiatic culture. That this geographic element has become less significant is a commonplace. Were George Washington living today, he might have modified his revered advice to avoid entangling foreign alliances. His views at that time were based on our isolated geographic position, and on the uniqueness of our democratic form of government in a world of hostile restrictive monarchies. These conditions have changed to some degree. During the years we have become "entangled"—economically at first and then politically. The Monroe Doctrine which declared our isolation in one sense really made it impossible in another. As a nation we are members of, or participate in the work of, more than seventy international organizations. We might comment, parenthetically, that we should pay more attention to the inspired advice of Washington in that same Farewell Address, which has not lost its timeliness, instead of repeating this one idea about isolation as we have done for so many years and on so many occasions.

Another factor has been the identity of our two political parties, the Republican and the Democratic, with attitudes toward the tariff—a major international commercial policy. We are going to consider at length the effects on the United States and on the world, as a matter of fact, of basing a definite approach to foreign trade on the fairly whimsical, haphazard, and inherited affiliation with political parties—one believing in a high tariff and the other championing a low tariff.

The Use of History. In developing further this Introduction, a word is necessary regarding the use of history in this book. We are aware of the fact that some people shy away from history much as others do from language, science, or mathematics. Such persons find themselves in the predicament of being poorly informed. Pressure of daily tasks prevents them from studying events while they are happening, and a dislike for history prevents them from studying the events after they have happened. Hence, they never study what has happened and go on from day to day without the perspective that history alone can give. It was Voltaire who said that "history is the tread of wooden shoes going up the stairs and the patter of satin slippers coming down." It is essential for the student to attune his ears to these two different sounds. World peace depends upon this.

We are using history in this text, however, not for the sake of history itself, but as the frame in which to set the tariff and international commercial policies. International commercial policies are not independent isolated things. They are a nation's answer at a particular time to a particular situation, need, or emergency which exists at that time. As such, they seek to alleviate the condition (foreign exchange control when foreign exchange is scarce) or to change the condition (a tariff to promote and

protect infant industries). As such, they have their political, geographic, legal, and human aspects as well as their economic aspects. Enough history, then, must be employed to hold together the material of the book through pointing out the background as well as the circumstances current at the time. This use of history will bring out, too, the relationship between nations. The chronological treatment of events is followed as a matter of developmental procedure rather than any desire to emphasize dates.

The Use of Illustrations. Every effort has been made to use enough illustrations to make the subject real and interesting. Virtually every country is mentioned in one or more illustrations. This has been done purposely to avoid the conventional approach which emphasizes a few major countries and ignores the commercial policies of a world economy. As a result, the illustration of a commercial policy will at times loom up more importantly than the country following it—if the policy is one that might spread, such as, for example, the extreme nationalism of Panama.

The Use of Quotations. In the body of the text and in the Appendixes appear a number of quotations—some of them lengthy—from laws, government publications, speeches, international agreements, political party platforms, and petitions. They have been carefully selected to give the reader "the feel" of the subject which can never be got solely from synopsis or paraphrasing. Some of them may serve as the basis for more intensive study and writing. Others have been included because they are not conveniently available elsewhere. In no case have they been included merely as filler.

The Use of Statistics. Statistics can be "deadly." A statistical table is too often welcomed by the "ambitious" student because it means a page or two that can be skipped. Statistics, too, have a way of becoming out of date just as soon as the next year rolls around. The statistics appearing in this text have been chosen with these points in mind. They have been used where a movement has become definitive as a sort of summation or have been included for the sake of contrast between peacetime and wartime. In the latter case, they are all of the type which can be kept up to date by reference to government publications, private publications, and yearbooks.

The Nature of a Policy. We are going to meet the word "policy" often in this book. For that reason, both a definition of the word and some discussion of policy formation are offered at this point. The word suggests prudence or sagacity in the conduct of public and private affairs. It means a system or measures adopted by the sovereign power of a country in the management of public affairs, with regard to either internal arrangements or to foreign intercourse.

A policy of a commercial nature should be understood to be the result of conditions existing at the time it was formulated. It is the answer of the

politicians and statesmen of the period to a set of problems dealing with the purchase and sale of commodities. Its purpose is to guide the community under existing conditions. Changing conditions make for changing policies, or, if the same policy holds, for changing application of the policy. It is also true that the recurrence of certain conditions usually means the return to similar policies—periods of centralized government witnessing certain types of laws, periods of decentralization witnessing other types, and transitional periods still others.

A policy may be wise or foolish, but it can hardly ever be proved to be right or wrong. Accordingly, a serious error is frequently made, especially in regard to commercial policies, by statesmen and teachers when an attempt is made to argue the rightness or wrongness of a policy, such as that of free trade or protection, when what should be argued is the wisdom or folly of such a policy when applied to a particular country at a particular time. This warning applies as well to attempts to judge present-day policies or to evaluate policies of a past period. John Stuart Mill, famous as a philosopher and economist, gives an excellent analysis of this latter fallacy when referring to mercantilism, which was the strongest movement in international trade history.

> It often happens that the universal belief of one age of mankind—a belief from which no one *was*, nor without an extraordinary effort of genius and courage, *could* at that time be free—becomes to a subsequent age so palpably an absurdity, that the only difficulty then is to imagine how such a thing can ever have appeared credible. It has so happened with the doctrine that money is synonymous with wealth. The conceit seems too preposterous to be thought of as a serious opinion. It looks like one of the crude fancies of childhood, instantly corrected by a word from any grown person. But let no one feel confident that he should have escaped the delusion if he had lived at the time when it prevailed. All the associations engendered by common life, and by the ordinary course of business, concurred in favouring it. So long as those associations were the only medium through which the subject was looked at, what we now think so gross an absurdity seemed a truism.[1]

The Formulation of a Policy. A situation arises which calls for a solution by a legislative body. The typical legislative body regards the situation as the core for which an immediate solution or palliative is sought. In reaching that solution, political and economic interests conflict and force a compromise of the varying views. The solution must fit into the larger framework of existing policies. The latter center about winning the war in times of war. In peacetime, they range from some degree of individualism to some degree of collectivism. Or they may go by a distinct name such as "New Dealism" and so on.

[1] Mill, J. S., *Principles of Political Economy* (5th ed.; New York: D. Appleton & Co., 1897), Vol. I, pp. 19–20.

The solution might prove workable, or it might prove unworkable. But even if it proves workable, it lays the foundation for results which are unpredictable both as to their nature and their extent. These results, in turn, frequently become the basis for new problems calling for further action by bringing about acute conditions in related spheres. Sometimes what starts out as a purely domestic problem has its international repercussions later on.

This analysis can be traced by studying practically any law from its inception on through its legislative history and then the experiences following its enforcement. For our purposes, let us point in a fairly general way to the recent furor in Congress over the passage of a bill which started out as an aid to domestic wool producers and ended up as a serious threat to an international program. The domestic problem had to do with the piling up of a wool stock pile and the implications of its disposal. A large volume could be written on the subject of Congress and the woolen industry. It would be an interesting book which would reveal much about the nature of our system of government. But for our needs, let us start with the stock pile and World War II.

The fear that our wool supply would be inadequate for the war period caused Congress to order the building up of a reserve. The original 250,000,000 pounds virtually doubled before the close of the war. The price paid by the government kept wool at about 42 cents a pound. The disposition of this surplus and the possibility of the pile growing even larger in 1947 and 1948 became an acute problem. It was clear that, if the government unloaded the accumulation on the market, the price would collapse. This would be unfair to the woolgrowers and a source of loss to the government. But, even if the government were to sell the wool outside of the United States at a world price, the question of abandoning or continuing a price guarantee to domestic woolgrowers would remain unsolved.

The larger framework or pattern called for, and at present (sensibly or foolishly) is still calling for, a great deal of government interference and "aid" to other agricultural products. Hence, the problem belonged to Congress. The conflicting elements were these: a Democratic administration versus a Republican Congress; woolgrowers versus wool importers and users of wool; the State Department's international policy versus more or less isolationist views; and the House versus the Senate. Yet out of these conflicting elements there had to come one policy binding on all groups alike.

During the course of the Congressional debate, no group questioned with any seriousness the place of wool in the larger framework. The wool farmer was to be helped along with other growers of staples. His price was to be supported by government purchases whenever it threatened to fall below 42 cents a pound. Parenthetically, it may be pointed out that,

on the very same day this assurance was given, the House Committee on Agriculture cut the Department of Agriculture's appropriation by one-third—and all of this in the face of the President's policy that prices in general should be reduced.

Argument was centered about a provision for an import fee (a euphemism for a tariff) of 50 per cent on foreign wool. Such a proposal not only ran counter to the tradition of the Democratic party, but it struck a blow at the spirit of the whole reciprocal trade program. Yet the provision passed the House with less than half of the membership voting. It ultimately passed the Senate as well.

In order to understand the importance of this wool policy, it is necessary to realize what else was happening at this time. At Geneva, seventeen countries and the United States were at work trying to usher in a world of freer trade through the mass lowering of tariffs under reciprocal agreements and, if successful, through the building-up of an international trade organization as a permanent world body. When news of the proposed wool tariff first reached Geneva, our chief negotiator, Undersecretary of State Will Clayton, returned to Washington by plane in order to point out its effects:

> . . . . new import fees on wool would injure the interests of the United States through their effects on our foreign relations. We all recognize the responsibility of this country for leadership, both political and economic, in the postwar world. The United States has taken the initiative in promoting the adoption of principles of economic conduct among nations, which would require each country to consider the impact of the economic measures it undertakes on world economic progress. If the (wool tariff) is adopted, the moral leadership of the United States in world affairs will suffer a serious blow.
>
> If at this time, when we are actually negotiating with other countries at Geneva for the lowering of trade barriers, we raise new barriers as this bill proposes, we stand convicted of insincerity.
>
> Wool is a critical item in our current negotiations for an International Trade Organization for the expansion of world trade and employment. Although wool raising accounts for less than one-half of 1 percent of our agricultural income, it is very important in world trade. It is the most important import into the United States from Australia, New Zealand, and South Africa. It is by far their most important source of the dollars they need so badly to buy our exports. If we impose new barriers to this trade we cannot expect them to cooperate wholeheartedly in creating the type of postwar world we want to have. Without such cooperation the other British commonwealth nations would have difficulty joining with us in a mutually advantageous program. Other nations would question the sincerity of our protestations that we do not intend to retreat to economic isolationism.[2]

[2] Clayton, Will, *Congressional Record,* May 22, 1947, p. 5836.

It is also well to understand that debate on policy fails to remain on the level of logic and sometimes falls to a lower, yet more effective, level. In the case of the wool debate, Mr. Clayton's plea was "answered" by Representative Murray of Wisconsin who pointed out that Mr. Clayton "is just one more American, no more and no less"; that Mr. Murray had not heard "of anyone electing (Clayton) to ruin their business"; that "Mr. Clayton has no more right than any other individual to be sent to Geneva and to be giving away an item produced by hundreds of thousands of American people." He did not want to send "Mr. Clayton or anyone else to Geneva to connive with a foreign wool monopoly."[3]

Representative Reed of New York injected the Communist issue. He asked:

> Why should there be Communists in the American group at Geneva? Is it their philosophy to preserve and protect this Government of ours; or is it their philosophy to undermine it through every device at their command? Is it to be supposed that any secret in our trading program is unknown which the Communists believe will enable them to weaken our trading position at Geneva? Surely the Communists or their fellow travelers could penetrate no Department of the United States Government where their activities could and would be more destructive to our Republic.
>
> The trade-agreement group at Geneva holds the power of life and death over large segments of our economy, yet in it and a part of this group are Communists. Not one agreement should be negotiated or executed until the group with Secretary Clayton at Geneva has been purged of its subversive element.
>
> Now I am not here making an idle charge. I have definite information that there is quite a large percentage of that group of 100 or more that was taken over to Geneva who are either Communists or fellow travelers. . . .[4]

To clarify his point, the Representative introduced a resolution creating a select committee to investigate the loyalty of certain assistants and advisers to the Undersecretary of State for Economic Affairs.[5]

Another factor in policy making, particularly in a democratic country, is the press. In the case of the wool bill, a large segment of the press opposed the tariff phase of the wool bill. The *Christian Science Monitor* labeled it the "wool torpedo" and warned that "if the American people do not want it to blow up the Geneva Conference and the most hopeful steps for economic peace, they should let Congress know—soon and emphatically." The *Pittsburgh Press* predicted that "of course President Truman will have to veto the Wool Tariff Bill. No more greedy, senseless and untimely measure has ever been considered by this Congress."[6] The *New*

[3] Murray, Reid F., *ibid.*

[4] Reed, Daniel A., *Congressional Record,* May 21, 1947, p. 5773.

[5] *Ibid.*

[6] *Christian Science Monitor,* June 5, 1947; *Pittsburgh Press,* June 16, 1947.

York Herald Tribune remarked that "one would have to look far to find a more perfect example of shortsightedness than the action of the Senate-House conferees who agreed to permit higher import restrictions on foreign wool." The *New York Times* called the bill "about as untimely as any measure of which the imagination could conceive at this moment."

In vetoing the bill, President Truman wrote to the Senate that "this bill contains features which would have an adverse effect on our international relations and which are not necessary for the support of our domestic wool growers." While not questioning the fact that the woolgrowers of this country are entitled to support, the President stated that the bill in its present form would be "a tragic mistake" and "would be interpreted around the world as a first step on that same road to economic isolationism down which we and other countries traveled after the First World War with such disastrous consequences."[7] The Senators, it might be added, received the message without any attempt to override the veto. Instead they set about writing a new bill omitting the tariff feature. Thus policy is made!

Facing the Results of Policies. It is probably a natural reaction to look at the immediate situation which calls for a solution without giving attention to the results of the policy chosen. This arises partly from the notion that present needs outweigh future problems and partly from the inability of those responsible for policy making to understand the forces they set to work.

Let us take the example of international loan. All too frequently, our Congress will vote a loan to another country without taking into account how it is to be repaid. When we extend a loan (regardless of whether it is to bolster up the British Empire, to reward the courage of the people of Greece, to stem the tide of communism, or to build hospitals and roads in less developed countries), it can only be repaid in three ways: (*a*) by the return to us of the amount of the loan in gold, (*b*) by the export to us of goods, or (*c*) by the rendering to us of shipping and similar services. This is elementary. But the same Congress or same political party that votes such loans will frequently prevent, through other policies, the repayment of such loans by barring the three ways open to the debtor nation—by hoarding the gold supply, by refusing to allow the inflow of goods, and by attempting to become self-sufficient in the carrying trade or other service.

This statement is not meant as a blanket criticism of Congressional policy because there are many other considerations which might make it appear advisable to hoard gold, to prevent the influx of foreign goods, and to develop self-sufficiency in the carrying trade through the building of a

[7] The text of the Veto Message may be found in the *Congressional Record,* June 26, 1947, p. 7847.

merchant marine. The point here, rather, is the need for greater care in forming policies, backed by greater wisdom and more foresight than has been shown previously.

It might be far better for world economy to make an outright gift than to extend loans which cannot be repaid. Unpaid international loans are a menace. Being uncollectible, their influence is uncontrollable. Like the clouds following the dropping of atomic bombs, they float about the economic universe affecting relationships in ways invisible to the naked eye, yet harmful both to creditor and debtor alike. Since the end of World War I, there has not been a single international conference but that the cloud of the unpaid war debt in excess of $15,000,000,000 has hung over the delegates. Thus, we see that next to wisdom in forming policies, there must be foresight as to consequences and courage in meeting the issues involved.

The Need for New Policies. Changing conditions bring about the need for new policies. A few questions, answered later in the text, will illustrate why this is true. For example, the use of the airplane for cargo purposes immediately raises such questions as these: Which existing laws and practices settled as to goods carried by ships can be applied to the air? Can freedom of the seas be translated simply into freedom of the air? Are planes on nonstop flights to be allowed to cross over the territory of other nations? Are claims for the loss of goods to be decided in terms of the law of the country where the buyer lives? Where the seller lives? Where the owner of the cargo plane lives? Where the damage occurred?

Or, consider the problems involved when synthetic fibers such as rayon and nylon are invented: Should they be subject to the same tariff rates as the natural fibers with which they compete or be given some other treatment?

What should be the treatment accorded the goods of a nation which finally wins its sovereignty? Should the United States treat Cuba and the Philippines as foreign countries in the fullest sense? Or, should special tariff concessions be granted their goods arriving here? Should Britain and India regard each other as foreign nations, now that the latter is independent? Or should British preferential tariffs be continued? Should nations sanction cartels in international trade and object to similar monopolistic control at home? How large a stock pile should nations build up in peacetime in anticipation of a stoppage of commerce in time of war? Under what circumstances should a nation join in various international movements or refuse to join?

The policies followed in dealing with these questions and many others of the same type are not built on formulas or pulled from a hat. They are man-made either in legislative assemblies of individual nations or by executive authority. Their repercussions are hard to anticipate. Sometimes

they work like a boomerang which comes back to the one who threw it. At other times, they seemingly prove effective only to plague a later generation. All of this suggests the need for greater deliberation in the field of policy making than has been given to our subject in the past.

SUGGESTED TOPICS FOR TERM PAPERS, ORAL REPORTS, AND PROJECTS

There is no substitute for learning through doing. For this reason, even the simplest term paper, oral report, or project can help the student greatly. The following list of topics is offered to help the student in the field of international trade. The list is not exhaustive, but it might prove helpful.

1. The Problems of a Terminal on an International Air Route
2. International Trade in Cotton (Wheat, Leather, Bananas, Lumber, Candy, etc.)
3. The United Fruit Company
4. The Technique of Clearing Goods through the Customs
5. The History and Description of *Lloyd's Register of Shipping*
6. The World Market for United States Medicines and Pharmaceutical Products (Canned Fruits and Vegetables, Paints and Varnishes, Motion Pictures)
7. An Analysis of the *Congressional Record* for References to International Trade Topics over a Three Months' Period
8. The Tramp Steamer: History and Present Importance
9. The Nature of Re-exports
10. The Traffic of the Panama Canal (Suez Canal, Kiel Canal).
11. Description of a Leading United States Port (New York, Boston, Baltimore, etc.)
12. The Work of the Foreign Commerce Department of the U.S. Chamber of Commerce
13. The Work of a District Office of the U.S. Department of Commerce
14. The Problems of the "Have-Not" Nations
15. The Problems of Land-Locked Nations
16. Description and Activity of the New York Free-Trade Zone
17. The Work of the Freight Forwarder
18. An Analysis of Recent Cases Decided by the U.S. Customs Court
19. The Work of the Customs Broker
20. The Work of the Consul (the foreign consul in your community or the United States consul abroad)
21. The Airplane as Cargo Carrier
22. The Advantages Enjoyed by a Nation Possessing Coal (Petroleum, etc.)
23. A Comparison of the Commercial Legal Systems of Common Law and Continental Law Countries in Respect to Credit, Conditional Sales, Agency, etc.
24. The Organization of a Cartel (select a specific one)
25. Doing Export Business under the Webb Export Act
26. The Nature and Content of the Free List of the Tariff

27. Book reviews (such books as *Oil for the Lamps of China* by Hobart, *400,000,000 Customers* by Crow, *Inside Latin America* by Gunther, *Mexico* by Chase)
28. How the Universal Postal Union Operates
29. The Work of the International Labor Office
30. The Pan American Union: Its History and Achievements
31. The Pan American Highway: History and Present Status
32. The Nature and Importance of Quarantine and Sanitary Regulations
33. The Work of the American Tariff League
34. The Present Status of Natural Rubber
35. The Problem of the Drawback
36. The Work of the Export-Import Bank
37. The Work of the World Bank
38. The Work of the World Fund
39. New York State's Aid to Exporters
40. The Lend-Lease and Reverse Lend-Lease Program in Retrospect
41. International Trade as a Vocation
42. The Use of Arbitration by International Traders
43. Pilferage
44. A Study of the Principal Documents Used by the Foreign Trader
45. Letters of Credit: Their Form and Uses
46. Foreign Investments of United States Capital
47. The Sterling Area
48. The Modern International Fairs and Their Significance
49. The Philadelphia Commercial Museum
50. The Relation of Synthetic Materials to Raw Material Supplies

CHAPTER II

INTERREGIONAL COMMERCE IN ANCIENT AND MEDIEVAL TIMES

ANCIENT TRADE

Introduction. Our survey of the interregional commerce of ancient and medieval times is not to be regarded as a full history of commerce, nor is it to be read in the spirit of antiquarian research. It is offered rather through the realization that present-day international commercial policies and principles have their origin and their "solutions" in earlier days, at the very beginning of interregional trade, and that modern policies are little more than the elaboration and refinement of what went before.

In order to understand the policies surrounding ancient commerce, it is necessary to recall the commerce which gave rise to the policies. The origin of trade between regions is lost in antiquity. Certain it is, however, that in 2000 B.C. there was a well-defined trade and recognized trade routes in the case of Egypt, that in the succeeding years larger and larger vessels (some of them larger than those used by Columbus in 1492) were built for this trade, and that a Suez Canal had been built to facilitate commerce.[1]

Ancient trade consisted largely of luxuries and other items where great value was found in small bulk, since such commodities alone could bear the cost of transportation. This was due to the slowness and difficulty of transportation and the tendency of each community to be self-sufficient in respect to necessities. Such bulky goods as were transported consisted primarily of food products imported as the result of famine or other unusual situations. Accordingly, if we list the principal imports of Egypt, we find tapestry and cloth coming from Syria; weapons and ornamental vessels from Phoenicia; decorated vessels, ornamental bronzes, and sword blades from the Aegean area; silver from Thrace, Asia Minor, and Spain; spices, cosmetics, and aromatic woods from the East; and gold and ostrich feathers from the south. Egyptian exports included amulets, glazed and gold ware, some linen cloth, and wheat.[2]

The same types of commodities entered Babylonian and Phoenician

[1] Knight, M. M.; Barnes, H. E.; and Flügel, F., *Economic History of Europe* (Boston: Houghton Mifflin Co., 1926), p. 23.
[2] *Ibid.*, p. 24.

trade. The exports of the former consisted of woolen cloth, hides, bronze ware, and grains, while the imports included metal ware, glazed ware, linen, and cedar wood. Phoenicia exported her famous Tyrian dye (a purple dye made from the shellfish *murex*), as well as cedar of Lebanon wood, glassware, cloth, and metal goods.

Greek Commerce. As time went on and more human wants called for satisfaction, the list of goods traded between regions increased. The people of Athens found themselves compelled to rely on foreign sources for food and raw material because of the large population and the relatively unfertile land which they occupied. This was true for Greece as a whole. As contrasted with the small list of exports such as olive oil, wine, some grain, some vegetables, fruits, honey, and domestic animals, the list of Greek imports was large. Besides salt fish and bread which were the staple articles of Athenian diet, dairy products, wool, copper, textiles, spices, ivory, silk, precious stones, carpets, and rugs were imported. Later on, Chinese silks, British tin, and other commodities entered the trade.[3]

Roman Commerce. In the case of Roman commerce, imports were far more important than exports. Food products and grain were brought from the East and from northern Africa, the lower Danube Valley, Gaul, and the Black Sea region. Gaul also supplied salt meat, cheese, and dairy products. The luxury trade included the usual items of ancient trade—dyes, precious stones, tapestries, rugs, glassware, linen, cedar wood, silk, pearls, ivory, spices, cosmetics, fine cloth, and papyrus. In addition, tin was brought from what is now Wales, and cotton was imported from India. Beeswax, amber, furs, slaves, and animals also became a part of Roman commerce.[4]

CHARACTERISTICS OF ANCIENT INTERREGIONAL TRADE

Besides the luxury and large-value-in-small-bulk nature of ancient interregional trade, we may point to a number of other characteristics. The products bought and sold consisted, for the most part, of commodities in which the exporting region had an advantage arising from location, climate, fertility, peculiar skill of the people, or governmental aids and policies. Phoenicia enjoyed a favorable location for trade with Egypt, Asia Minor, and Europe. Greece, located as it was "on the threshold of the Orient," was at the same time secure from nomads and invading armies as well as from the paralyzing influence of Oriental political despotism. Tyrian dye and cedar of Lebanon wood were natural resources confined to a small area. Egyptian amulets were world-famous because of their beauty; and, since no one would buy any other kind, it seems a trade in sham Egyptian amulets grew up (the work of Greek settlers in Egypt)—

[3] *Ibid.*, p. 48.
[4] *Ibid.*, pp. 73–74.

an interesting forerunner of modern times when "Irish" linen is made in China and "English" broadcloth is made almost everywhere.

Code of Hammurabi. Trade was carried on by well-defined sea routes, although some caravan trade existed. In the time of Hammurabi (cir. 2130–2088 B.C.) there were donkey caravans to Syria and Egypt. Hammurabi's Code, the most ancient known to us at present, goes into such detail in connection with boat-building and boat-hiring that we can picture a relatively active commercial period. In this code (Sections 233–40) we read:

> If a boatman build a boat for a man and he do not make its construction seaworthy and that boat meet with a disaster in the same year in which it was put into commission, the boatman shall reconstruct that boat and he shall strengthen it at his own expense, and he shall give the boat when strengthened to the owner of the boat.
>
> If a man hire his boat to a boatman and the boatman be careless and he sink or wreck the boat, the boatman shall replace the boat to the owner of the boat.
>
> If a man hire a boatman and a boat, and freight it with grain, wool, oil, dates, or any other kind of freight, and that boatman be careless and he sink the boat or wreck its cargo, the boatman shall replace the boat which he sank and whatever portion of the cargo he wrecked.
>
> If a boatman sink a man's boat and refloat it, he shall give silver to the extent of one-half its value.
>
> If a man hire a boatman he shall give him 6 Gur of grain per year.
>
> If a boat under way strike a ferryboat (or a boat at anchor) and sink it, the owner of the boat whose boat was sunk shall make declaration in the presence of the god of everything that was lost in his boat and (the owner) of (the vessel) under way which sank the ferryboat shall replace his boat and whatever was lost.[5]

Harbor-to-Harbor Trade. Most of the interregional trade of ancient times consisted of peddling by boat from harbor to harbor. The Greek traders, for example, plied their trade in the Mediterranean and adjacent seas.[6] Although the Phoenicians ventured beyond the Straits of Gibraltar and into the Baltic Sea, most trade was confined to adjacent regions. The size of the ships and the lack of the compass militated against longer voyages. Few voyages, moreover, were attempted even on the Mediterranean during the winter months; but, since there was little to move at that season, trade did not suffer. By the time of the Roman Empire, over one hundred ships plied regularly between the Red Sea and the ports of India.

Rise of *Jus Gentium*. Not only did certain types of commodities enter into trade, but certain peoples showed an exceptional aptitude for it.

---

[5] Handcock, Percy, *The Code of Hammurabi* (New York: Macmillan Co., 1920), pp. 36–37.

[6] Knight, Barnes, and Flügel, *op. cit.*, p. 40.

The Syrians were famous in this work for two thousand years. The Phoenicians, too, carried on commerce of this nature. The Romans saw fit, accordingly, to employ Greeks, Syrians, and Near-Easterners to handle their foreign trade for them. As an outgrowth, the idea of the freedom of the trader (recognized earlier by the Phoenicians) was developed—an idea which has had a profound influence on subsequent commercial development. At that time it took the form in Italy of the *commercium,* that is, the right of citizens of one city to transact business in another with full legal protection. Subsequently, there developed the *jus gentium.* Originally private law dealing with individuals whose interests were affected by conflicting laws of two regions, it became the nucleus around which modern international law has grown up.

The Use of Barter. Ancient trade was carried on through barter. It has even been suggested that the merchants, after having attracted attention to their boats by means of smoke signals, placed wares on the shore and returned later to find them replaced by "fruit, nuts, gold, silver, and other native products."[7] There was no cash; there were no credit instruments for interregional trade; and the precious metals were regarded as commodities instead of as a medium of exchange. There does not seem, moreover, to have been any special legislation regarding their inflow or exportation.

Colonies. Trade policy, along with ideas of colonization and military strategy, called for establishment of colonies. This was especially true of Phoenician and Greek trade development. Phoenicia established colonies in Malta, Sicily, Sardinia, and as far west as Cadiz in Spain. She also founded some on the Atlantic coast beyond the Straits of Gibraltar. Carthage, of course, was her most famous settlement. These colonies, in turn, became colonizing agents as well.

The Influence of Government. Another significant development was the special interest which governments began to take in interregional trade. Except in the case of certain Greek states which prohibited foreign trade entirely, trade was seen as a revenue producer, and to this end, encouragement was given in the form of land and sea protection. Harbors and lighthouses were built. Thus, in the Hellenistic period, a lighthouse at Alexandria was established. Egypt protected her merchants by policing the Mediterranean with a large fleet, and soldiers guarded the land routes. Trade was more or less thoroughly regulated by the state, and custom houses were established at ports of entry where duties were levied on all goods except those consigned to the crown. The revenue produced was one of the important sources of income to the imperial treasury. In Roman times the dependence of the population on imported grain brought further government aid in the form of shipping subsidies and regulations.[8]

[7] Horn, Paul V., *International Trade* (New York: Prentice-Hall, Inc., 1935), p. 75.
[8] Knight, Barnes, and Flügel, *op. cit.*, pp. 23–24, 43, 75.

The "Pax Romana" or Roman peace, moreover, which used military forces to put down piracy on the sea and robbery on land, has been called "Rome's greatest contribution to trade."[9]

Trade as a Just Cause of War. Interregional trade was frequently the cause of war and was regarded as a just cause. There was, accordingly, a relation between political and commercial decay. This stands out clearly when one looks at the successive supremacy of different regions. The eclipse of Egypt when the Minoan civilization succumbed to the Greek invaders, resulted in the supremacy of Phoenicia. The Roman cry, "*Carthago delenda est*" (Carthage must be destroyed) resulted in the wars that gave supremacy to Rome. Indeed, without stretching historical facts in any period, one can find the commercial factor in almost all of the wars that have been fought. It has been suggested, too, that Pompey's victory over the "pirates" in the Mediterranean Sea was simply the Roman way of getting rid of the merchants of other nations who had built a trade for themselves in this region. Through the annihilation of these "pirates" and their thousand ships, Rome enjoyed a monopoly of trade. The decline of Rome in the west, which marks the end of ancient times, also witnessed the growth of Constantinople whose policies and methods shaped most of the subsequent trade of the Middle Ages.

MEDIEVAL INTERREGIONAL TRADE

The Shift from Rome to Constantinople. Historians have given the name "Middle Ages" to that period of European history beginning with the fall of Rome in 476 and ending about the year 1500. There is, of course, no sharp cleavage between ancient times and the Middle Ages. This is especially true of interregional commerce. People living in 476 were not aware that the year 477, let us say, heralded a new period. In the case of interregional trade there was a gradual shift of activity from Rome to Constantinople which became the "Rome" of the East. Since the East experienced no medieval period, we can examine this trade and learn much about commercial development and policies, especially since these policies were carried back to Europe and became European commercial policies in Genoa, Venice, and other centers.

Constantinople. Constantinople was a city of a million people at the time that Rome had dwindled to the size of a small town of a few thousand. As the center of a great empire which ruled over a large area and maintained order, Constantinople was the "London" of the period. Its money was standard throughout the Mediterranean world; its geographic location was excellent for both sea and land transportation. Banking, as understood in those days, was well developed. The export and import trade was in the hands of foreign merchants, the Romans never applying

[9] Horn, *op. cit.*, p. 79.

themselves to this type of work. But, in order to control commerce, the government compelled these merchants to live in special quarters of the city where they enjoyed their special privileges under government supervision. Thus, the Venetians, Genoese, and other traders from the Italian peninsula and elsewhere lived in the East. The government also regulated the voyages of the merchants, and the trading was carried on by individual merchants organized into commercial guilds.

Another interesting example of the ruler's interest in commerce is shown in Justinian's reign. That emperor faced the problem of carrying on trade with China in the face of the new Persian empire which sought a monopoly of the trade for itself. A direct land route being out of the question, Justinian tried a route by way of the Nile, Ethiopia, India, or Ceylon. When this proved a failure, he next tried war with Persia. But here, again, he met with failure. He made one final attempt. This time he organized a caravan route, but once again the plan failed. Then he showed his ingenuity. The trade with China being primarily in silk, he brought the silkworms from China and built a thriving industry in Greece, Syria, and other parts of his empire.

Conditions in Europe. Over in Europe the downfall of Rome meant the downfall of centralization, the breaking up of large territorial units centrally governed and controlled into small units governed by weaker local rulers. The money system had broken down, transportation had become dangerous and expensive, and, as a result, each unit was becoming more and more self-sufficient. Interregional commerce was again reduced to the status of luxuries or such necessities as food. Mrs. Nash, in her delightfully written book on the Hanseatic League, summarizes these conditions when she writes that:

> It is almost impossible (for us) to realize the state of Europe during the 10th, 11th, and 12th centuries. Gone was the might of the Roman Empire, and with it all the trading and travelling facilities it had established shattered by the invading hordes of barbarians. Then came the evil days of Feudalism, and the Holy Roman Empire, under whose rule the land was subdivided into provinces governed by Margraves, Dukes and Barons each constantly warring with his neighbor, and bartering, mortgaging and giving away portions of his lands, till in the ensuing confusion, there was little or no security for those members of the community who were struggling to establish some stable form of trade.[10]

Burdens on Commerce. The first merchants were men who wandered about the country with their packs on their backs. Those in better circumstances rode on horses or mules. Later on, caravans of baggage carts were organized with, perhaps, a small body of paid soldiers

[10] Nash, Elizabeth G., *The Hansa: Its History and Romance* (New York: Dodd, Mead & Co., 1929), p. 3.

to protect them from the robbers who infested the lonely tracts of country. The early merchants "undoubtedly took their lives in their hands at every hour of the day." Besides the robber bands, the exaction of the noblemen constituted a burden on commerce. Castles and churches levied toll on all users of the roads that ran through their provinces, and, since merchants were forbidden to use any but toll roads, they were at the mercy of the barons, some of whom were very greedy. Commerce by sea was equally difficult. There were no known laws of navigation, and the boats, which were rowed by banks of oars and never dared to leave the sight of land, were at the mercy of the pirates along the Baltic Sea and elsewhere.

> Pirates were always on the lookout for plunder; there were numbers of them, and the English, French, and Italians were particularly active. The Bretons on one side of the Channel and the English on the other made the narrow sea a terror to sailors. Many of our (English) south coast towns were nests of pirates. No one was safe from them, and they were not content with stealing men's goods, but sometimes seized their persons also and imprisoned them until ransoms were paid, and occasionally they murdered their victims.[11]

Some of the existing laws also proved a hardship on the merchant. For example, the law of the Strandgut provided that all merchandise washed up on the shore belonged entirely to the owner of that land, and according to Mrs. Nash, "Many a landowner was an expert at the gentle art of wrecking and did a flourishing trade in merchandise obtained in this way."[12] So great were the risks and so heavy the duties along the Mesopotamian route that the silver value of spices was sixty or one hundred times as high in Venice as that which had been paid for them in India.[13]

Progress in Navigation. During the thirteenth century, however, the art of navigation made rapid progress. The compass replaced the Phoenician dependence on the North Star. The ships were larger, yet lighter of build and easier to handle. The art of tacking enabled them to sail nearer to the wind and made them less dependent on harbors and anchorages. All of this meant more security, faster voyages, lower costs, and larger profits.

THE EFFECTS OF THE CRUSADES

The Crusades meant the deathblow to Byzantine commerce, which passed as a result to Venice, Genoa, Pisa, and other Mediterranean ports.

---

[11] Marshall, L. C., *The Emergence of the Modern Order* (Chicago: University of Chicago Press, 1930), p. 163. This is an adaptation of Abram, A., *English Life and Manners in the Later Middle Ages* (London: George Routledge & Sons, Ltd., 1913), pp. 248–59.

[12] Nash, *op. cit.*, p. 6.

[13] Marshall, Alfred, *Industry and Trade* (London: Macmillan & Co., Ltd., 1927), Appen. B, p. 683 n.

This passing of supremacy was due to the emigration of Syrians and others who brought their fortunes and their special banking knowledge to Italy. The fleets of Genoa and Pisa accompanied the early Crusaders and enjoyed a certain amount of resulting trade. Subsequently, the Venetians defeated the Pisans and seized the lion's share of passenger traffic and of the forwarding of supplies to Palestine. It is interesting that the Venetians demanded for themselves a monopolistic market in every town captured and also turned the Fourth Crusade against their commercial rivals, the Greek Christians, at Constantinople. As a result, Venice won the Black Sea trade. In 1261, however, the city of Constantinople was recaptured by the Greeks aided by the Genoese. The great amount of trade, industry, and town life and the use of money prevented southern Europe from becoming a series of manors under feudal lords. Italian nobility collected in the towns instead of on the manors and interested themselves in foreign trade.

The commercial laws and policies laid down in these commercial cities were very similar to those in force in Constantinople. The Byzantine nautical code, under which the government controlled voyages, was adopted. The same system of protection against pirates was introduced, and the same treatment of foreign traders was set up. Traders were organized into guilds, and foreign merchants were closely watched and regulated. A German merchant, for example, had to stay at the German Traders' House. He was not allowed to carry arms and had to be accompanied always by a local inspector. He could trade with local citizens only. His stock had to be German or of northern European origin; otherwise it was subject to other rules and fees. His goods had to be sold in the community which he was visiting.

Genoa and the Development of Business Practices. It is not surprising, then, that with such commercial activity modern business documents and practices were evolved in Italy. In Genoa there were stock companies, banking establishments; subterfuges to overcome the ban on usury; checking accounts, letters of credit, and bills of exchange to minimize the transportation of money; investment banking; bookkeeping; and marine insurance. This last-mentioned development consisted of a loan to the shipowner to be repaid by him only if the vessel came safely to port. Interregional loans were becoming common especially by financiers in the industrial community of Florence. As early as 1338, a loan of $3,500,000 was made to Edward III of England—which was never repaid—a large amount when judged by the fact that a cow cost $3.00 at that time. A safe string of harbors had been established which were visited by the three thousand commercial vessels and forty-five men-of-war of the Venetian fleet. Alfred Marshall suggests that "when they had arrived safely at a foreign port, their difficulties had only begun. They still needed protection

for themselves and their goods against the rude violence of the mob, and against the more orderly violence of its rulers." For further protection, then, the merchants built "factories" or "forts" "along the shore of the Mediterranean from the beginning of history." The fleet also guarded the entrance of all rivers in Venetian-controlled territories in order to prevent foreign merchants from underselling Venetian merchants.

Territories of the Italian Cities. These territories, consisting of cities with their surrounding territories conquered by the Crusaders, gave the Italian cities colonial empires. Pisa and Florence had possessions in Syria, Palestine, Africa, and Greece. Venice obtained almost half of the Eastern Empire when Constantinople fell in 1204, including the Ionian Islands, control of the Dardanelles and the Sea of Marmora, Crete, and Cyprus. Later on, further expansion absorbed territory along the Black Sea and in Armenia. Genoa's possessions included a large group of colonies on the Black Sea, Chios, Samos, part of Cyprus, Corsica, Sardinia, and regions in Spain, Greece, Armenia, Syria, and Palestine.[14]

The government also supervised the type of goods to be imported and exported. Professor Sinclair points out that the "trade of Venice was organized upon a political basis. It could almost be said that the Venetian state was a company of merchants of whom the Doge was the chief."[15] The prohibition against the importation of products of foreign skill was probably intended to give her own citizens a monopoly of the domestic market. At the same time, the law forbade Venetian artisans to emigrate lest they set up competing crafts elsewhere or teach others the secrets of Venetian manufacture. This type of law is found frequently in the history of the Middle Ages as well as in later times.

The New Route to the Indies. One can readily understand the hesitancy of Mediterranean states, with their well-organized commerce and their colonial possessions, to seek a westward route to the Indies and their lack of interest in the colonization of the New World, even with the aids of the compass, crude charts, and sailing directions. The discovery of the New World destroyed the Mediterranean monopoly of Oriental trade and with it the commercial supremacy of Mediterranean states. The new route was cheaper, and bulkier goods could now be carried—a factor which brought about basic changes in interregional trade and in the standard of living in Europe. Professor Adams says:

> The revolution wrought by the opening of this new route was tremendous. Venice, though in a favored position, had been compelled to buy her goods in Egypt at a great disadvantage, as the Arabs had a practical monopoly. Heavy

[14] Nussbaum, Frederick L., *A History of the Economic Institutions of Modern Europe* (New York: F. S. Crofts & Co., 1933), p. 74.

[15] Sinclair, Huntly M., *The Principles of International Trade* (New York: Macmillan Co., 1932), p. 14.

tolls and dues were added to the original cost, and the Portuguese were able to buy in India several times cheaper than the Venetians in Egypt. Venice was thrown into a panic. Contemporary evidence is said to show that when the news first came that spices had reached Portugal direct from India, the price of such goods fell more than fifty per cent in Venice.

For the Venetians it was certainly a question of life and death. Their whole commercial existence depended upon the result. They urged the Arabs of Egypt most earnestly to oppose the Portuguese in India in every way possible; they discussed for a moment the opening of a Suez Canal, and even the project of securing an overland route around the Turkish dominions in alliance with the Russians. But it was all in vain. The world's commerce had outgrown the Mediterranean. Six years before Vasco da Gama's success Columbus had reached America, and the world passed at once out of the middle ages.[16]

ENGLISH COMMERCIAL POLICY DURING THE MIDDLE AGES

Treatment of Foreign Merchants. The early part of the Middle Ages witnessed the control of English commerce by foreign merchants who were subjected to the same treatment as the foreign merchant in Constantinople and the Italian cities of Venice, Florence, and Genoa. English attitude toward them, however, was colored by the never ending conflict between nobility and the towns. Both groups agreed that the carrying trade could well be left to the foreign merchant, but they disagreed as to the privileges of that merchant while on English soil. The town burgesses wanted the merchant to bring his goods, to sell them to the citizens of the town, to spend the proceeds for domestic goods, and then to leave as quickly as possible. They legislated, accordingly, with this in view. No foreign merchant was to stay in England longer than forty days. While there, he was to reside with an English host who was to be responsible for his actions and to witness all of his commercial transactions, which were not to involve retail trade or trade with other foreigners. Sometimes, however, the towns adopted a more liberal course by granting special privileges to certain foreigners as in the case of the Hanseatic League merchants.

The king and the nobility, however, were opposed to the strength of the town monopolies, and they also saw the possibility of buying more cheaply directly from the foreign merchant by avoiding the profit of the English middleman. Policy, therefore, went from one extreme to another. Whenever the king was in a strong position, he favored the foreign merchant. At one time or another, he promised to take only a moderate share of the foreigner's goods as export and import taxes. At other times, he relaxed certain requirements so that occasionally the merchant might remain in England more than forty days, live where he pleased, engage

[16] Adams, George Burton, *Civilization during the Middle Ages* (New York: Charles Scribner's Sons, 1899), pp. 289–90.

in certain retail trade ordinarily closed to him, trade at will with native merchants or fellow-foreigners.

Policy of Edward III. Historians agree that Edward III (1312–77) was the first English king to have a reasonably well-defined commercial policy. During his reign, foreign merchants had no legal position in England other than that which grew out of his special favor. It was to the king's interest, however, to favor the aliens. Through them he sought to strengthen his foreign alliances, to make English goods cheaper by planting foreign industries through the settlement of aliens—a practice started by William the Conqueror (1027?–87)—and in general to get such benefits as he could from foreign commerce. At first he removed the forty-day residence restriction and somewhat later the requirement that alien merchants live with an English host. He granted freedom of movement and trade throughout England and made them subject only to ordinary taxation. He offered protection against pirates by driving them away and by supplying convoys for English vessels. He put forth the claim to sovereignty of the sea.

Policy of Richard II. During the reign of Richard II, the policy lacked consistency. Being indebted to the merchants of London, he favored them and restored some of the earlier restrictions. More and more, however, the practice of granting the same privileges to foreign merchants in England as English merchants enjoyed abroad became pronounced. Longer periods of residence were granted and many of the anti-alien trading laws became inoperative. It was not until the latter part of the fifteenth century, however, that the host system fell into disuse.

Treatment of Foreign Merchants. Popular prejudice remained strong. Dislike of strangers led to charges that they were taking the gold out of the country and that they depreciated the currency by circulating base money. It asserted itself at times in the forms of many anti-alien riots (1359, 1456, 1457, 1493, and 1517 being the most serious) and in the occasional enactment of oppressive legislation. Vexatious tolls and imports duties were levied against them. For example, a tax had to be paid at Calais, the English staple town, amounting to threepence, and another of a similar amount at Dover. A bond had to be put up pledging them to buy English goods to an amount equal to the value of the imported goods. Fees were charged by the superintendent of packages for the purpose of preventing fraud. The Act of 1439 provided that all aliens were to report to the proper authorities for assignment to their hosts within three days after their arrival. The latter were required to present a formal return to the Exchequer showing all of their lodger's transactions and the fee they received in the form of a percentage on the value of the merchandise bought and sold. Part of the grievance against the alien was the result of the immigrant artisans brought over at various times by royal invitation (weavers, clockmakers, etc.) who did not have to join the existing guilds

or pay guild fees. These groups succeeded in forming their own associations and caused serious concern to the English guilds.

PURPOSE OF MEDIEVAL COMMERCIAL POLICIES

There is some question as to the purpose of medieval regulation of commerce. Was it mercantilistic in the sense of utilizing commerce and colonies to build up a strong nation? Was it intended to protect domestic manufacturers against the competition of foreign products? Was it motivated by a spirit of isolation and dislike of the "foreigner"? Or was it directed primarily for the sake of the consumer? Rationalizing after the fact is easy enough. Reading into laws and actions of the past a purpose or a policy is not at all difficult. Perhaps some part of each of the questions can be answered in the affirmative. The medieval period was one of status which militated against mobility and change. It was a period of fair price and price fixing; of opposition to forestalling, regrating, and engrossing; of abhorrence of usury. It was a period of guild regulation as well. As a result, there existed much that made for consumer protection, particularly in terms of the village or town unit. Guild regulations sought to insure the quality of the product, but this was as much for the reputation of the producer as it was for the safety of the consumer. Some of the policy was unquestionably dictated by the self-interest of the king and the nobility; some arose out of the opposition of the towns; some, again, resulted from the dislike of the foreigner. Regulation of commerce was yet to become a part of a far-reaching plan; but it must not be forgotten that, when a partially planned mercantilistic economy became dominant, it utilized most of the devices of the type which we have considered in this chapter. Certain it is that when the mercantilistic policy held sway little thought was given to the consumer directly. There appears as a result an anomalous situation wherein localized restrictions seeking to help the consumer become, when applied on a national scale, the means of accomplishing something quite different.

SUMMARY

The commodities entering interregional commerce were limited in terms of type, variety, value, bulk, and distance carried. They consisted of the goods which resulted from the particular climate of the place, its distinctive resources, or the peculiar skill of its people. Trade by sea was confined to coastal trade and was engaged in by the Greeks, Syrians, and the people of the Near East. It was carried on by means of barter.

Governments took a special interest in interregional trade, giving aid in the form of improved ports, lighthouses, customs regulations, and protection against "piracy." Trade was frequently a cause of war.

The Middle Ages marked a shift in trading centers from Rome and

western Europe to Constantinople. The latter, a city of a million inhabitants and favored by its geographical location, dominated the trade of the Mediterranean world. Trade was strictly regulated. Trade gradually spread westward to the Italian cities which copied the treatment accorded foreign merchants. The discovery of a new route to the Indies brought tremendous and lasting changes in interregional trade.

British trade policy during this early period permitted foreign merchants to carry on trade in England but segregated them and limited them as to length of stay, the type of their merchandise, its source, and in other respects.

The purpose of medieval commercial policies was mostly to protect the consumer and partly to help carry out the ambitions of the rulers who faced not only foreign powers but the strongly entrenched local interests of the towns which hampered the emergence of strong central governments.

QUESTIONS FOR DISCUSSION

1. How may commercial policies and laws realistically be evaluated?
2. What is meant by the "interregional trade" of ancient and medieval times? What is our purpose in studying it? When and by whom was the earliest known interregional trade conducted? What types of commodities entered into such trade? Explain.
3. What light does the Code of Hammurabi throw upon the extent and nature of ancient interregional commerce?
4. What was the *jus gentium?* Explain how and why it arose. What was its relationship to later developments in international commerce?
5. What was the role of government in ancient interregional trade? How do you account for this?
6. List the conditions that impeded commerce in medieval Europe. How did the situation differ in the Eastern Empire?
7. What effects did the Crusades have on interregional commerce? Which Italian city-states dominated Mediterranean commerce? To which of these did supremacy eventually pass?
8. How do you account for the decline of Venice as a great commercial center?
9. Account for the conflict between the attitude of the English nobility and that of the town guilds toward the foreign merchant. What were the chief characteristics of the English commercial policy during the Middle Ages?
10. What connection do you see between the ideology of the Medieval Church and the commercial policies and practices of the period?
11. What were the chief purposes of medieval commercial policies?

Chapter III

TRADING INSTITUTIONS OF THE LATE MIDDLE AGES AND EARLY MODERN TIMES

Conditions in the Middle Ages. Professor George Burton Adams offers an excellent summary of conditions in the Middle Ages and their influence on commerce when he writes:

> Bad roads and no bridges; the robber baron or band of outlaws to be expected in every favorable spot; legalized feudal exactions at the borders of every little fief; no generally prevailing system of law uniform throughout the country and really enforced; a scanty and uncertain currency, making contracts difficult and payment in kind and in services almost universal; interests and desires narrowed down to the mere neighborhood; these were the conditions of the eleventh and twelfth centuries. A successful commerce meant necessarily a ceaseless war upon all these things, and the introduction of better conditions in these respects was, almost in itself, the transformation of the medieval into the modern.

Interregional commerce did not entirely cease in Europe during the Middle Ages, however. Professor Adams continues:

> Even in the worst times there can be found many traces of what may be called inter-state exchanges, of commerce between the East and the West, or between the North and the South. The church needed, for its ornaments and vestments in its services, cloths and spices and other articles which could not be obtained in the West. Nobles made use of numerous articles of luxury and display in a life that was, on the whole, hard and comfortless. Where wealth existed there was a tendency to invest it in articles which would store great value in small space, and which could be quickly turned into money, or exchanged. The demand, consequently, for the articles which commerce would supply, though it was limited, was strong and of a sort which insured a great profit.[1]

The Growth of Trading Institutions. Since many of these articles called for trade with distant places or with peoples of different climatic zones and varying degrees of civilization and since existing governments were too weak to protect their merchants from the exactions of other rulers, from robbers on land, from pirates on sea, or from the inroads on

[1] Adams, George Burton, *Civilization during the Middle Ages* (New York: Charles Scribner's Sons, 1899), pp. 280–81.

commerce made by rival trading groups—indeed, in a period when treaties to clarify international relationships were in their infancy—it became necessary for a number of special trading institutions to grow up to suit the peculiar needs of the period. Among these were the "fair" or periodic and predominantly wholesale market for imported goods, the "staple" or permanent market, the Hanseatic League and other commercial leagues of cities which sought through organization to give protection to their traveling merchants and to obtain trading privileges for them, and the joint-stock and regulated companies for regional trade with their fighting forces and quasi-sovereign powers.

These institutions—remnants, reminders, and survivals of which exist today—must not be thought of as succeeding one another. They ran somewhat concurrently and even came into conflict at times. In so far as dates can be given them in terms of their heyday, the fair may be said to have flourished during the thirteenth and fourteenth centuries, the Hanseatic League during the fourteenth and fifteenth centuries, the staple during the same period, and the regulated and joint-stock companies during the sixteenth and seventeenth centuries. In the pages that follow, the essential features of each of these institutions will be considered.

THE FAIR

Its Origin. The precarious nature of travel in the Middle Ages along with the immobility of the people which resulted from the medieval ideals of custom and status, especially in northern Europe, made for the minimum amount of travel. Those who did venture forth, no matter how short the distance, made their wills before they left—wills which provided that, if the maker returned safely, they were to be of no effect. Accordingly, the incentive for travel had to be a strong one. Such an incentive was found in religious festivals which served at that time as the magnet for both group crusades and individual pilgrimages, very much as they had in the ancient world in Syria, Palestine, Egypt, and Arabia and at Delphi, Olympia, and Rome. These gatherings provided excellent markets for traveling merchants and peddlers, and the modern name given to such temporary markets, "fairs," is related to the German word "*Feiertag*," meaning a holiday. Sometimes the pilgrim was also a merchant, and sometimes the merchant traveled under the guise of pilgrim.

What has been called England's oldest treaty appears in the form of a letter sent to Offa, King of Mercia, by Charlemagne and deals with the pilgrim and merchant on their way to and from a fair:

> Concerning the pilgrims who for the love of God and the salvation of their souls do visit the precincts of the Apostles, we have granted as of old that they may journey in peace, free from all disturbance, taking with them what they

need. But we have discovered in their midst traders who pass themselves off as pilgrims, pursuing gain and not serving religion; if these are found among them, they must pay the fixed tolls in the regular places. You have also written to us about your merchants. We would have them enjoy our protection and defense within our realm as we have ordained, according to the ancient custom in commerce, and if in any place they are distressed by unjust oppression let them appeal to us or our judges, and we will order justice to be done to them. Show like favour to our merchants, and if they suffer wrong within your realm let them appeal to your justice, so that disturbance may nowhere arise between us.

Location and Occurrence of Fairs. The early fairs were held on or close to land owned by religious bodies and some actually located in the churchyards themselves. As time went on, the religious centers came to regard the fair as a revenue producer. Thus, of the four fairs held in Cambridge, England, each year, one belonged to the Prior of Barnwell and lasted four days from the Vigil of St. John, the Baptist. A second belonged to the Prioress and Nuns of St. Rhadegund and lasted two days from the feast of the Assumption of the Virgin. A third was controlled by the Master of Lepers' Hospital and was held on Holy Cross Vigil and Day. The fair of the burgesses was held on Rogation Days. Attempts to prevent fairs on Sundays were made, although in some cases there seemed to be no general objection to this practice.

Special Fair Privileges. Besides supplying the only market at which foreign goods could be purchased, the holding of a fair promised a degree of security, not otherwise attainable, in the form of protection by king or church within one mile of the market, while en route, and for forty days thereafter. The fair also involved a relaxation of the town monopolies on trading, so that full freedom was given alien and native as well as burgess and stranger. There was also a remission or lightening of the tolls which constituted then, as now, a heavy burden on commerce. These tolls were levied on persons crossing bridges on foot, on horseback, and in carts, as well as on persons crossing rivers and fords. Taxes, similarly, which were normally very heavy and imposed on the goods in transit, were reduced on goods around fair time.

Decline of the Fair. Fairs, which Professor Lipson has aptly called, "oases of commercialism in a wilderness of militancy," were held in many places throughout Europe, although they reached their greatest development in central England and in the French region of Champagne. Other fairs were held at Paris, Frankfurt am Main, Cologne, Geneva, Lyons, in various parts of England, and in Russia. Their size, their importance, the nature of the goods handled, their duration, and their period of survival differed greatly. The Sturbridge Fair, for example, was held for 644 years, while those of Nijni Novgorod and Leipzig are still in existence. But for

the most part, the fair as a trading institution reached its height in the thirteenth and fourteenth centuries and declined rapidly after the end of the eighteenth century when the periodic nature of the markets no longer satisfied commercial needs and when improved methods of production and transportation made possible a sustained commerce instead of trading in surplus and accumulated goods. Travel, too, had become safer, and the protective feature of the fair was no longer needed. The peddler and the traveling merchant became the source of goods for the small inland communities, while regular markets grew up in the towns and cities. Such fairs as persisted assumed the character of sample fairs and international industrial expositions, some of which are still significant in international trade.

The Auction. The rise of auctions also contributed to the lessened importance of the fair. The auction resembled the fair in having a fixed location, and the time for the auction was set with the arrival of the goods. During the sixteenth century the auction was used by the Dutch East India Company for the disposal of colonial products. An auction in April and May was held each year, at which time pepper, cinnamon, mace, and other spices were sold. A second auction in October and November was the occasion for the disposal of silk, cotton goods, and other merchandise. Tobacco also entered this trade.[2]

SIGNIFICANCE OF THE FAIR

Of interest to our discussion is the fact that the commodities bought and sold at the fairs were the raw materials and finished goods of the commercial world of the period. Some of the commerce was international in origin, and almost all was intertown and interregional. The items sold varied with the years, and, since the institution of the fair lasted about one thousand years, we find a constantly increasing supply of goods as each year brought new inventions, higher standards, and new products. Spread out for the inspection of all comers lay the wares of the numerous trading nationalities. More than this, similar wares were grouped together and, barring the wiliness of the seller or the ignorance of the buyer, could be compared. With the passing of the years, certain wares coming from specific localities had built world-wide reputations of excellence for themselves—a sort of trade-mark. Among these commodities were Italian silk and velvet from Genoa; finely woven linen from Flanders; sword blades and iron from Spain; wines from Portugal; laces, wines, silks, and fashions from France; pitch and tar from Norway; furs from Siberia; old time treasures from Greece, Constantinople, and Florence. In addition to these

---

[2] De Haas, J. Anton, *The Practice of Foreign Trade* (New York: McGraw-Hill Co., Inc., 1935), p. 145.

products, many ornaments and commodities of a religious nature were offered for sale.

Fair Law and Sanction. Almost as varied as the goods offered for sale were the merchants attending the fair—French, Flemish, Italian, German, English, Spanish, Dutch, Swiss, Russian, and Scandinavian—if we call them by their modern names. The heterogeneous nature of the traders, together with the periodic nature of the fair, gave impetus to the development of a law that was general in nature and summary in application. Obviously, the application of English law, let us say, to a merchant from Russia would have worked a hardship, and the rendering of a decision allowing for an appeal or for the extension of a trial over many months would have proved intolerable. Accordingly, there grew up what Professor Maitland has called the "private international law of the Middle Ages." It was unwritten, customary in nature, and developed out of the needs and views of merchants. As such, it became the binding law on merchants and mercantile practice throughout Europe. It was enforced by judges brought from neighboring cities or selected from the heads of merchant corporations present at the fair. Its sanction lay in barring representatives of the towns whose merchants refused to conform from attendance at subsequent fairs. This sanction was applied against Italian merchants and others at one time or another. The merchant at the fair, moreover, was not to be prosecuted for actions not committed at the fair, nor could he be held responsible for debts incurred elsewhere. This merchant law thus became a boon to interregional commerce just as the *commercium* in the days of the Roman Empire was the basis for earlier commerce.

The Rise of Banking. Besides contributing to the development of interregional commerce and to modern law, the fair was also influential in laying down the rudiments of modern banking. For the most part Italians, the early bankers or goldsmiths, who alone had strongboxes, were concerned with the keeping of valuables for others in attendance at the fairs and with exchanging the money of one group of foreign traders for that of another group. This task was made necessary and at the same time more difficult by the condition of the currency of the period—a heterogeneous mass of coins issued by different authorities. Much of it was debased, clipped, or spurious. It was here, too, that the practice developed of arranging payment at a future time and at another place in order to avoid cash transactions. Merchant law grew up to cover such practices.

THE INSTITUTION OF THE STAPLE

Definition. The "staple," a regulatory device to force the stream of commerce into definite channels, consisted of one or more towns designated by the King of England, to which all English goods intended for export had to be brought. As such, the staple served as a continuous and

thriving market both for the exports of England and for the foreign goods brought to the staple by other merchants. The staple was governed by an official, called the "Mayor of the Staple," elected by English and foreign merchants. This office called not only for the enforcement of law but also for the diplomatic task of protecting both the interests of the king and those of the foreign merchants.

Uses of the Staple. At the height of its success the staple system served the king by facilitating the collection of customs revenue and by enabling him to obtain gold or other desired commodities in exchange for English goods. At one time, for example, the English merchants at Calais were ordered to refuse any payment other than precious metals. The king, moreover, could control the quality of the goods sold so as to build up the reputation of English exports. The king also used the staple as an instrument of diplomacy by relocating or threatening to relocate the staple, thus bringing prosperity or disaster to the community.

From the merchant's point of view, the staple was advantageous as well. It enabled him to obtain better prices by trading in a continuous and crowded market filled with eager buyers, and it placed the risk and cost of transportation on the buyer—a risk that still included piracy. It was not realized until a later period, however, that this advantage tended to place the bulk of the carrying trade into non-English hands as a result.

The Location of the Staple. The location of the staple town was determined by the English ruler, who determined the number of towns to be so designated as well. As early as 1313, Edward II decided on one staple, and although the location was frequently changed it was generally in Flanders. After some years at St. Omer, then Antwerp, then Bruges, and St. Omer once more, the staple was moved to England where it remained for two years. In 1326, fixed staples for wool, woolfells, and hides were established in fourteen places—eight in England, three in Ireland, and three in Wales—and at these places only aliens were to buy for purposes of export.

In the time of Edward III, various plans were tried. For four years all staples were abolished and merchants were allowed to trade where they pleased. Then the staple was re-established at Bruges. However, conditions were not conducive to peaceful trade, partly because of growing disorders in Flanders which endangered trade and partly because of the attempt of the citizens to exclude Lombardian buyers in order that they could get the wool more cheaply themselves. As a result, the staple was removed to England where a number of places were designated. These included Newcastle, York, Lincoln, Norwich, Westminster, Canterbury, Gloucester, Winchester, Exeter, Bristol, as well as a number of places in Ireland and Wales. In 1363, the staple was established in Calais where it served, not only for the center of the tin, lead, and woolen cloth trade, but also for

wool. Subsequently it moved back to England, then back to Calais, then to Middlesbrough, England and back to Calais where it remained until 1558—or until Calais ceased to be an English possession.

Later History of the Staple. Subsequent locations were Middlesbrough and Bruges. In 1617, a proclamation prohibited the export of wool from England, abolished the foreign staple, set up more than twenty home staples, and empowered the staple merchants to buy wool anywhere in England and to sell it at any staple. The Staplers then sought, but without success, admission into the cloth trade. This brought them into conflict with the clothiers, somewhat like the earlier conflict they had had with the Merchant Adventurers—an all-English company, not bound to any one staple and enjoying a monopoly in the export of cloth. Again in 1621 and during the periods of Charles I and Cromwell and under the Restoration, the export of wool was forbidden. After the Restoration, free trade in wool was declared once restrictions on wool dealers were removed.

The Importance of Wool. The chief items or staple commodities were wool, hides, leather, tin, and to some extent salt meats and dairy products. Of these, wool was the most important. Alfred Marshall refers to it as the only item of first commercial importance that

> went in every direction, taking no refusal: and the headwaters of nearly every stream that flowed to an eastern port, however small, received from land-carriers wool that was on its way to the Continent. . . . . Coarse woolen cloth shared with leather the chief services that portable commodities rendered to substantial comfort. Raw wool in the early time, and manufactured wool in a later time, were the principal means of bringing into the country imports of all things, and especially of the much coveted precious metals: and it was regarded, for various reasons, sound and unsound, as the main buttress of national power in early times; while its manufactures were a main embodiment of industrial prowess in the beginnings of England's industrial leadership.[3]

THE COMMERCIAL LEAGUES OF CITIES

Origin of Commercial Leagues. Just as the staple gave the English and foreign merchants who carried on England's trade a continuous market, so the merchants carrying on trade in other places sought to obtain for themselves such markets along with the security of person and property. At the same time they wished to obtain such tariff concessions and other privileges as they could. Accordingly, the merchants of northern Europe formed local trading associations along guild lines. They traveled together and traded in a body in various cities and were able to win various concessions for themselves. The merchants from Cologne, for example, who traded in England, were very well known and enjoyed a

[3] Marshall, Alfred, *Industry and Trade* (London: Macmillan & Co., Ltd., 1927), Appen. C, pp. 703–4.

liberal treatment in England both in their movements and in their trade transactions.

Growth of Commercial Leagues. Later on, regions rather than the individual town or city became the basis for association. These associations or leagues of cities were much wealthier and more powerful than the one-city group. They employed diplomats and embassies, engaged in naval and land warfare with offending powers, made treaties, and were successful in their negotiations for their members. The better-known regional leagues were the Swabian, the Wendish, the Baltic, and the Flemish. The last-mentioned league was probably the first to reach a high stage of organization. By the second half of the twelfth century, it controlled Flemish trade with England and expanded from a membership of seventeen towns to fifty-six, many of which lay beyond the boundaries of Flanders. The more important members were Ypres, Lille, Ghent, Douai, Arras, Cambrai, Abbeville, St. Omer, Beauvais, Caen, Troyes, Amiens, and Rheims. These cities exported their armor, cloth, glass, and other manufactured goods and brought back from England the staple, wool. The "Flemings," as they were called, worked with the Staplers—the former controlling the imports and the latter the exports. But, following the decline of the Flemings, the Staplers took over both functions in 1354.[4]

The Hanseatic League. The most powerful of the leagues was the Hanseatic League, which had its political as well as its more important economic side, maintaining embassies, offices, forts, and factories in foreign countries. Its members, consisting of merchants and the cities in which they dwelt, included 77 cities, although as many as 115 places were associated with the League at one time or another. No list was ever published by the League, which operated with a great degree of secrecy.[5] It is, therefore, a source of confusion to writers, who frequently include as members certain cities where members had privileges. It seems safe, however, to say that the Hanseatic League merchants enjoyed special privileges in almost every town and city in northern Europe, even though no formal recognition was granted them.

Members of the League. In terms of the present territorial distribution in Europe, the more important league members in Germany were Luebeck, Bremen, Hamburg, Koenigsberg, Brunswick, Frankfurt, Cologne, Hamlin, Magdeburg, Nuremberg, Berlin, and the free city of Danzig. League privileges were enjoyed in Bergen, Norway; Antwerp, Bruges, and Ghent, in Belgium; Novgorod and Riga in Russia; and Cracow in Poland; London, Boston, York, Hull, Grunsby, Norwich, Lynn, Yarmouth, Canterbury, and Rochester in England. It may be said of the

---

[4] Knight, M. M.; Barnes, H. E.; and Flügel, F., *Economic History of Europe* (Boston: Houghton Mifflin Co., 1926), pp. 209–11.

[5] *Ibid.*, p. 212.

member cities that they were well adapted to commerce politically. The leaders of the city governments were the wealthy men at a time when commerce was the chief source of wealth.

Expulsion of Members. The value of membership in the League was evidenced by the fear of being "unhansed"—a penalty which frequently meant the ruin of the town. Mrs. Nash tells of the decline of the city of Bremen and the attempts of the city of Brunswick to be reinstated after six years of ostracism. Before their request was granted, two burgomasters and eight leading citizens had to walk barefoot through the streets of Luebeck, wearing long penitential gowns and carrying candles. At the headquarters they had to kneel and beg the League's pardon.[6]

The Steelyard. Within certain important non-German cities, such as Bergen, Novgorod, and London, where trading privileges were granted, the Hanseatic merchants from the numerous cities of the League, although trading independently, lived together in a common and minutely regulated fellowship in an area which enjoyed a degree of what we would call today "extraterritoriality." The London headquarters, later called the "Steelyard" (possibly after an ancient weighing device) had a frontage along the Thames River, just west of London Bridge, of some 200 feet and a depth of 400 feet. Within this enclosure was the guild hall, dwellings for the traders, an armory, warehouses, the wharf itself, and a sample yard in which merchandise was shown. First established in 1250 (although there is some dispute about the date),[7] it lasted with some vicissitudes in the League's fortunes until 1598 when Queen Elizabeth gave its occupants two weeks in which to leave. The area today is known as "Ironbridge Wharf."

The Hanseatic Merchants. The merchants themselves were a hardy lot of men inured to hardship and as ready to engage in armed conflict as to carry on commerce. They became merchants only through a selective process which involved an apprenticeship and anywhere from seven to ten years to reach the degree of alderman. Subjected to a severe initiation involving ordeals by smoke, water, and stripes (which proved fatal in some cases), they were not likely to break trading rules or Hanseatic ethics and be fined heavily or expelled from membership. Selling faulty goods constituted such a crime.

Goods Handled by the Hanseatic Merchants. The list of goods handled by the League members serves as an indication of the extent and type of interregional commerce during the period. From Sweden the

[6] Nash, Elizabeth G., *The Hansa: Its History and Romance* (New York: Dodd, Mead & Co., 1929), p. 96.

[7] Lipson, E., *Economic History of England* (London: A. and C. Black, Ltd., 1915). Vol. I, p. 467, gives the date as 1320 and states that the League became the actual owner in 1475. The unsigned article in the *Encyclopædia Britannica*, 14th ed., Vol. XXI, p. 370 indicates the earlier date.

merchants carried in their specially constructed cargo vessels, copper, iron, silver, granite, and limestone. The Prussian and Baltic provinces supplied grain, while the luxuries of the period were brought from Italy. These included all sorts of fruits and spices, embroidery, silks and velvets, stamped leather work, gold, silver, precious stones, and heavily chased metallic ware. Russian commodities included timber, tar and pitch, honey, and fur. The merchants also dealt in the finer Flemish linen and cloth, the coarser English and German weaves, and salt fish and beer.

Honey, Wax, Fur, Salt Fish. A mere recitation of these items, however, fails to give an adequate indication of their importance, and therefore it is well to consider some of them in brief detail. Honey, for example, was not merely a sweet delicacy. It constituted the sole means of sweetening known in those days. Wax, in turn, as the raw material for candles was one of the most important and expensive products (selling for $15 and $20 a pound) in a period when church ritual made an enormous use of them. Fur, too, had a significance quite different from that which it possesses today. At that time it was the necessary part of the everyday clothes of the burgher and merchant alike. Salt fish, likewise, constituted one of the chief foods of the people because of the numerous meatless days dictated by the church. Then, too, inland transportation was too slow to transport fresh fish. Accordingly, the Hanseatic merchants, making use of the salt deposits around the Baltic and a salting process of their own, packed tremendous quantities of salted herring. To insure good quality, the League had official fish packers.

The Decline of the League. The Hanseatic League gradually declined in its influence. This decline occurred earlier in some countries than in others. The usual causes cited include the expulsion of the merchants from Russia by Ivan III; their disfavor with Kristian, King of Denmark, Charles V of Spain, and Queen Elizabeth of England; the series of expensive yet unsuccessful wars waged; the difficulties of the free cities during the Thirty Years' War; the discovery by the English of a sea route to Archangel; the activity of the Merchant Adventurers; the Reformation which destroyed a sense of religious unity that hitherto had existed; and, finally, the growth of Holland as a commercial nation. This last-mentioned factor was due in part to a curious natural phenomenon, namely, the removal of the herring grounds to the Dutch coast during the early part of the fifteenth century. This put the Dutch in a position to get revenge for the earlier prohibitions placed on Dutch sailors and fishermen in the Baltic region imposed by Hanseatic towns—a revenge which caused those towns to decline.[8]

The Hanseatic League merchants also exerted an influence other than economic and political. Mrs. Nash has said of them: "It is certain that the

[8] Nash, *op. cit.*, p. 189.

merchants of these times were one of the main channels through which art, literature and civilization spread over the land. The Hansa never slept; its wits were constantly at work to sense the new demands and to cater for them; and a more clever body of traders has never existed."[9]

THE JOINT-STOCK AND REGULATED COMPANIES

The Reasons for This Institution. The dominance of about one hundred joint-stock and regulated companies chartered by the various European countries in early modern times for the purposes of carrying on interregional and international trade may be attributed to a number of factors. In the first place, as Professor Lipson points out, it was only natural to apply the corporate idea, already underlying village and guild organization, to the overseas trade. In the second place, it was necessary for merchants to combine in order collectively to insure for themselves the protection to their persons and property while traveling in foreign lands and on the sea, which the governments of the period could not give. The corporate form also was preferred by the governments having distant dependencies because it gave them the opportunity to control and tax the trade with ease. In short, "The privileged companies provided a fairly thorough substitute for a national trade policy."[10]

Sovereign Powers Possessed by the Companies. Each company had a definite territorial sphere in which to operate, and no unaffiliated merchant could trade in the region. Merchants could, however, belong to more than one company. Sir Thomas Smythe, for example, was not only a governor of the East India Company, but also of the Levant and Russia Companies. The first two shared the same minute books at first. Operating as they did at great distances from home, these companies were given certain sovereign powers such as maintaining embassies, erecting forts, repressing piracy, and conciliating foreign rulers.

The Distinction between Joint-Stock and Regulated Companies. The distinction between the joint-stock and the regulated companies lay in the form of the organization. The members of a joint-stock company traded as a corporate body with profits being distributed among the members as stockholders and losses being borne in the same way. In the regulated company, on the other hand, each member traded on his own capital under the common rules laid down by the company. The Merchant Adventurers, the Muscovy or Russia Company, and the Baltic or Eastland Company were examples of English regulated companies, while the famous East India Company, the successive African Companies, and the Hudson Bay Company were organized as joint-stock companies. The

[9] *Ibid.*, p. 30.
[10] Marshall, *op. cit.*, Appen. C, p. 703.

more important English companies, besides those already mentioned, were the Cathay Company, the Levant or Turkey Company, the Barbary or Morocco Company, the London and Plymouth Companies, the Guinea Company, the Newfoundland Company, the Bermuda Company, the New England Company, the Company of Massachusetts Bay, the China or Cathay Company, and the Canary Company.

Dutch and French Companies. Similarly, Holland and France had their East India companies. The Dutch venture began in 1602 with a loose association of six semi-independent groups representing six cities. Fifty years later it became a single company and served as the model for many other companies chartered by different governments. The company was organized somewhat like a state with directors, an assembly of seventeen and a "General of the Indies." It issued stocks and what we today would call "bonds."[11] France organized twenty-two companies during the period 1599–1624 to carry on trade with Canada, the West Indies, the western coast of Africa, Madagascar, as well as the East Indies. Some of the more important companies were known as the Senegal, the West India, the Company of the North, the Company of the Levant, and the African Company.

Some Generalizations. 1. While the various companies differed in a number of ways, there are some more or less general points that can be made regarding them. In the first place, each company usually enjoyed a monopoly of trade with a particular region, and the governments were eager to charter as many companies as there were regions. Henry the VIII's reason for chartering the Russia Company in 1555 was probably typical. He argued that, since the world had four parts and three were already "discovered" by other princes, Britain should "discover" the North. The East India Company was given the whole, entire, and only trade to and from the East Indies to the exclusion of every other English subject unless licensed by the company.

2. Part of the success of the companies depended on the attitude of the rulers living in the regions with which they traded. To win this good will the Levant Company maintained ambassadors and consuls. The former were the king's representatives, but their salaries and expenses were paid by the company. The East India Company likewise spent enormous sums on gifts to local rulers.

3. The companies suffered more or less from interlopers and from friction with other companies chartered by other powers and with vested interests at home. It was not always easy to keep merchants who were not members from carrying on trade with these regions. Nor was it at all strange that regions like the East Indies should be the scene of conflict

[11] Knight, Barnes, and Flügel, *op. cit.*, pp. 279–80.

with the British, the French, and the Dutch companies seeking the lion's share of the trade. Sometimes the differences were settled by treaty and sometimes by armed conflict.

4. The companies enjoyed certain sovereign powers—that is, powers ordinarily reserved to a government. The British East India Company, the greatest of all the joint-stock companies, possessed vast territories, could make laws in most places under its control in India, could imprison natives, and was free from all inland customs and duties in towns and provinces through which the merchants passed. The companies also built their own forts which served the dual purpose of warehouses and places of refuge. The expenditure of the British East India Company in 1681 for this purpose came to £100,000 and for the period 1765–71 over £9,000,000.[12] The Dutch East India Company, too, spent vast sums and boasted of a standing army of 12,000 Europeans. In some cases, the companies engaged in elaborate military expeditions. The New Netherlands Company, for example, spent a great deal of energy and money in futile attempts to conquer Brazil and other Spanish possessions in South America.

5. The profits earned were at times large compared with those of the present day but probably were not out of proportion to the risks of trading at that time. The British East India Company is said to have made a profit of 234 per cent on the voyages in 1607. At other times the government fixed the maximum. In 1769 the figure was fixed at 12½ per cent for the Company. The Dutch East India Company paid annual dividends ranging from 15 to 50 per cent for two hundred years but finally failed in 1798 owing over $50,000,000—a sum subsequently paid by the Dutch government.[13]

6. The companies numbered some of the rulers among their stockholders. Queen Elizabeth had £40,000 invested in the Levant Company. The King of France bought shares in the French companies "and gently but firmly suggested that the nobility do likewise."[14] The treasury gave grants as well.

7. The companies assumed a special significance as instruments of mercantilism being the recipients of generous treasury grants and special privileges. "They were regarded as the front-line troops in the war of money."[15] Officials were not, however, convinced as to whether the treasure of the kingdom was to be exported in order to carry on the transactions of these companies. In the case of England's East India

[12] Nussbaum, Frederick L., *A History of the Economic Institutions of Modern Europe* (New York: F. S. Crofts & Co., 1933), p. 76.

[13] Marshall, *op. cit.*, Appen. D, p. 727 n.

[14] Packard, Laurence B., *The Commercial Revolution* (New York: Henry Holt & Co., 1927), p. 65.

[15] *Ibid.*, p. 65.

Company, special legislation allowed the carrying out of £30,000 in treasure conditioned upon the bringing in of a similar amount after each voyage. In 1616 the amount was increased to £60,000. It was raised to £100,000 in 1617 and finally to £120,000 in 1629.

8. A growing antimonopoly sentiment (at least in England), together with varying mercantilist notions on the export of specie, made it necessary for the companies to improve their relations with the public. Men like Davenant, Mun, and Child were employed as writers to justify these companies against charges that they were monopolies "repugnant to the law of nature, the law of nations, and the positive law of the land."[16] Some of the claims of the companies, nevertheless, were that they had advanced the art of navigation, built many ships, loaned money to the crown, taken care of foreign exchange transactions, prevented frauds in the customs, helped administration to keep in touch with commercial affairs abroad, strengthened diplomatic position, and so on.

9. The life of the company was at the pleasure of the parliament or chartering authority. In 1606, for example, the Spanish Company was dissolved, and trade with Spain, Portugal, and France was opened to all subjects.

10. The company charters[17] laid down the general privileges of the companies. That of the British East India Company permitted the making of reasonable laws and the punishment of offenders by imprisonment and fines. The charters also controlled the members, their standards, their trading habits, and their apprenticeship systems. The constitution of the Merchant Adventurers vested autocratic control in a governor, his deputies, and assistants who had the right to make new laws and to revoke or alter old ones. They could punish members by fine and imprisonment, levy taxes, loans, assessments, and impositions on persons or goods.

Control Exerted over Members. The company exerted strict control over members while trading abroad, forbidding them to live or to house their wares in any "suspected house, tavern, inn, or victualling house." Punishment was inflicted for immoral conduct, excessive drinking, or gambling. Members had to conform to the established religion and to arbitrate their disputes. They were to be disenfranchised for marrying a foreign woman, acquiring an estate abroad, committing perjury, a felony, or for violating the oath of membership.

The merchants were also subjected to minute regulations. Goods were to be exhibited for sale only on Monday, Wednesday, and Friday—the "show days." Business was to be entirely suspended during religious serv-

---

[16] *Report on Free Trade,* drawn by a committee of the House of Commons in 1604. Cited in Lipson, E., *Economic History of England* (London: A. and C. Black, Ltd., 1931), Vol. II, p. 243.

[17] This account of company charters is based on Lipson, *op. cit.,* Vol. II, pp. 214–25.

ices and on holidays. Competition was to be kept fair by a series of regulations such as the following:

> No person shall stand watching at the corners or ends of streets, or at other men's pack-houses, or at the house or place where any cloth merchant or draper is lodged, nor seeing any such in the street shall run or follow after him with intent to entice or lead him to his pack-house.
>
> No person shall let or interrupt another in his bargain whether buying or selling, nor by any sign, device or other means . . . . shall attempt to hinder or break off another's proceedings.

The charter also provided for admission of new members. Membership could be obtained through inheritance, apprenticeship, or purchase. Apprentices were to be at least sixteen years old and serve for a minimum of eight years, during which time they were forbidden to marry. Purchase of membership was expensive much as membership purchase in a stock exchange is today. The difficulty of admission into the company had a twofold purpose: to control the type of merchant who would enter and to limit the number in order to keep profits high.

Similarities of Trading Institutions. Our survey of the trading institutions of the late Middle Ages and early modern times—the fair, the staple, the auction, the commercial league, and the joint-stock and regulated companies suggests a number of similarities. All were instruments of trade growing out of the conditions existing at the time of their origin, namely, the danger of travel because of bad roads and robbers who infested the roads; the difficulty of sea travel because of lack of the compass, limitations in the ships of the period, and piracy on the seas. Then, too, commerce was hindered by the unfriendliness of the natives toward the traders and the general dislike of aliens.

These trading instruments, moreover, were inseparable from the governmental policies of the period which sought to promote the trade of their own nationals through the granting of monopolies, privileges, loans, and exemptions and, at the same time, attempted to interfere with the trade of the nationals of other states through burdensome tariffs and other restrictions. Interregional trade was used for political ends as well as economic ends.

This period of commercial history left with us many features of present-day international trade. Besides commercial law and some international law, international banking, foreign exchange, and bookkeeping were developed. The corporate form of business also proved its effectiveness. While the theory of international trade was not enriched, the groundwork for the theory of comparative advantage was being laid in the recognition accorded the superiority of certain products and certain

regions. More of the theory of this period, however, will become clear in the next chapters, which deal with mercantilism.

SUMMARY

Weak governments, decentralized authority, and poor means of communication and transportation brought about some unique forms of trading, such as the fair, the staple, commercial leagues of cities, and joint-stock or regulated companies. Each form served its purpose in overcoming difficulties over several or more centuries and made lasting contributions toward our present-day commercial institutions.

The fair was a temporary, periodic market, frequently associated with religious institutions where goods of all kinds were brought together in neighboring stalls or booths and sold to consumers or wholesalers who later contacted consumers by peddling and other devices.

The staple was a regulatory device to guide the stream of commerce through the channel of a town or towns designated by the king of England. It enabled the king to collect customs on imports, to control the quality of exports, and to obtain money or goods as the needs called for. The leading goods handled were wool, hides, leather, tin, and salt meats and dairy products. The staple was advantageous to the merchant. It gave him a continuous market and placed the risks of transportation on the foreign buyer.

The commercial leagues of cities were a device by which merchants engaged in foreign trade and overcame the limitations of sovereignty and the dangers of trading away from home by conducting their business as a group. This gave them bargaining power and the chance of winning valuable concessions from foreign rulers. The joint-stock and regulated companies were given semisovereign and monopolistic powers by their chartering governments to conduct trade relations with less settled and more distant regions of the world. Some of them ultimately enriched the colonial empire of the mother-country.

QUESTIONS FOR DISCUSSION

1. Discuss the medieval fair as a trading institution from the point of view of (*a*) its origin, (*b*) functions, (*c*) location, (*d*) special privileges granted to traders, (*e*) development of commercial law, (*f*) development of banking practices, (*g*) factors contributing to its decline.
2. What was the institution of the staple? What was its purpose? Of what advantage was it to the king? To the merchants? What were the most important staple commodities?
3. Discuss the Hanseatic League from the point of view of (*a*) factors accounting for its rise, (*b*) membership, (*c*) factories, (*d*) disciplinary methods, (*e*) principal commodities traded, (*f*) factors contributing to its decline.

4. What factors can you list that account for the origin of the great chartered companies of the sixteenth and seventeenth centuries?
5. Distinguish between the regulated companies and the joint-stock companies. Use modern analogies to illustrate the difference. Cite several examples of each type of company.
6. Discuss the provisions of the charters of the trading companies under the following headings: (*a*) monopoly powers, (*b*) sovereign powers, (*c*) control over members.
7. What was the relationship between the chartered companies and incipient mercantilism?

Chapter IV

MERCANTILISM: TREASURE AND GOODS

INTRODUCTION

Local Autonomy. In Chapter I, it was pointed out that commercial policies change with the changing forms of territorial organizations; that use is made of such existing policies as prove adaptable to the newer circumstances, while other policies are abandoned and new ones developed. It also appears that the form of territorial organization follows a certain development. The decline of Egypt, Babylonia, and Phoenicia as national units covering large areas was followed by the city-state supremacy in the form of communities such as Sparta and Athens. The city-state then feeds on the hinterland and soon absorbs it. Thus, the Athenian Empire got its start. On its decline, other city-states grew in importance until one of them, Rome, grew greater and greater and finally controlled a large portion of the ancient world. The decay of the Roman Empire in the west saw the rise once more of such city-states as Florence, Genoa, and Venice, which, we have seen, dominated large areas and controlled much of the interregional commerce of their period. As time went on, the city-state again gave way to national organization. But even where the city did not assume city-state status, as in England, for example, the national government remained weak until the king was able to wrest from the towns, cities, and guilds, their jealously guarded privileges and their large degree of local autonomy which extended over adjoining metropolitan areas or districts.

Town Citizenship. Citizenship was in terms of the town rather than in national terms. A merchant, coming from one community in England to buy or sell goods in another, was not considered a fellow-Englishman but an alien, that is, not a fellow-townsman. As such he faced disabilities which at times were almost as burdensome as those imposed on aliens from different regions of the world. Tariff restrictions were also frequently imposed by one region against goods coming from another, even though both regions were under the same political control.

Where the city-state existed, the sense of kinship was even more remote, the Venetian having little in common with the Florentine or the Genoan. Similarly, where a king attempted to unify a series of separate territorial units which were under the rule of petty noblemen, neither

was the process peaceful, nor was the sense of loyalty to the sovereign very strong. Even the coinage was local in character, and the coins of one locality were not good in another. The task of a king to weld together a nation under these latter circumstances was considerably more difficult than in the case of guild-ruled towns and took much longer, not being attained in some instances until the 1870's.

The Triumph of Centralization. The ultimate victory of the king has been regarded by some writers as having come about through the destruction of the local guild privileges, while others have stressed the widening application of guild restrictions to the nation as a whole. We are inclined to be sympathetic to this latter view. There is so much similarity between the aims and methods of the guild and the national aims under mercantilism that it seems best to consider the process as the extension of the guild system to the nation rather than as the decline of the guild and the building up of a new list of policies.

Professor Nussbaum points out in his volume based on Sombart's *Der Moderne Kapitalismus* that "in one very important respect mercantilism simply extended to the wider area of the state the economic feeling of the town. The aim was the good of the whole rather than the good of the individual. Just as the town had pursued the policy of assuring to its inhabitants the necessary means of life, so the state gradually took over the same function." He suggests that "the state simply continued the spirit of the old gilds in its minute regulations" and that "politically, the gilds were being undermined by the general substitution of the state's authority for their own, but the economic ideal which they embodied remained."[1]

Professor de Haas, however, sees in the "elaborate regulation of industry and trade by town councils" a different goal than is found in mercantilistic regulation. The regulation of the Middle Ages was to serve the consumer rather than industry as such, and, except for the cases where town fairs sought to favor local merchants by handicapping foreigners, he states, "It is fair to say that industry had no significant service from governing bodies during the Middle Ages."[2]

Micro- and Macro-mercantilism. Perhaps it would not be amiss to regard the general town economy with its guild setup as a sort of small or local or "micro-mercantilism" and the growth of the national unit as the transition to large or national or "macro-mercantilism." It will be, of course, the latter that we shall have in mind when speaking of mercantilism.

---

[1] Nussbaum, Frederick L., *A History of the Economic Institutions of Modern Europe* (New York: F. S. Crofts & Co., 1933), pp. 64–65, 68.

[2] De Haas, J. Anton, "Government Services for Business," *Encyclopedia of the Social Sciences*, Vol. III, pp. 113–22.

Micro-mercantilism. In addition to numerous guild restrictions which are similar to later mercantilistic policies, special attention was given by the medieval towns to the precious metals as early as the thirteenth century, and some control was exerted over the export of corn (grain), wool, and coal. There were tolls levied on the use of rivers and highways as well as duties on goods. Obstacles were placed in the way of strangers and foreigners, and there was even the germ of theory on the balance of trade.

In Germany, the prince or minor ruler rather than the towns controlled commercial policy. His general laws grew in number; yet everywhere the local laws were stronger. Local judicial decisions carried more weight than did those of the ruler, although some questions were referred to the joint jurisdiction of town and prince. "In short," as Professor Schmoller states, "the town market formed a complete system of currency, credit, trade, tolls, and finance, shut up in itself and managed as a united whole and on a settled plan; a system which found its centre of gravity exclusively in its local interests, which carried on the struggle for economic advantage with its collective forces, and which prospered by independent and energetic merchants and patricians able to grasp the whole situation."[3]

Mercantilism Defined. Like many terms in economic history, the term "mercantilism" was coined near the end of the "system" after some two or more centuries of activity. Professor Lipson issues the warning that, since the writers of the sixteenth and seventeenth centuries did not use the term, later writers should not attempt "to give formal shape and substance to what was largely nebulous and opportunistic." Heckscher finds it to be used originally in an opprobrious sense and occurring in the writing of the French Physiocrats who were contemporaries of Adam Smith.[4] The latter devotes about one-fourth of his book to the commercial or mercantile system. Professor Cunningham stresses economic power for political goals and Schmoller regards mercantilism as a system replacing local and territorial economic policy by a national state—in brief, that mercantilism is state making. Professor Packard regards mercantilism as "a group of ideas concerned with building up, through industry and commerce, the wealth and power of the state"—ideas "logically suited . . . . to the interests of the royal families or dynasties which were doing their best to increase the size and strength of these states."[5]

[3] Schmoller, Gustav, *The Mercantile System and Its Historical Significance* (New York: Macmillan Co., 1910), pp. 10–11.

[4] Hecksher, Eli F., "Mercantilism," *Encyclopaedia of the Social Sciences*, Vol. X, pp. 333–39.

[5] Packard, Laurence B., *The Commercial Revolution* (New York: Henry Holt & Co., 1927), p. 39.

Mercantilism, Colbertism, and Cameralism. We may define "mercantilism" as a group of ideas and practices current in Europe in the sixteenth, seventeenth, and eighteenth centuries, having as their purpose the building of strong political states and economic self-sufficiency through the use of economic tools. It has become customary to speak of the mercantilism of France as "Colbertism," after Colbert who served as Louis XIV's Finance Minister for twenty-two years, and that of Germany and Austria, as "cameralism" or "kameralism." This last-mentioned form had certain characteristics growing out of the disorganized political state in which Germany found herself. It was so called because the word *Kammer* meant room or treasure room. Cameralism ultimately became a university study for training officials in the art of keeping the treasure room filled. In this respect it was probably the forerunner of courses in public finance and governmental service.

The Philosophy Underlying Nationalism. If we may regard mercantilism as a diet suited to growing nations, we may also look at the philosophy of the period as supplying the ethics for growing nations. Nationalism could only grow with the recognition of the subordination of the local government to the national government and of the individual will to that of the state. The subsequent revolution known as "laissez faire" was essentially the attempt of the individual to throw off this philosophy and to assert an independence from the extraordinary interference in his daily life which grew out of the internal aspects of mercantilism.

The philosophical basis for nationalism is suggested by writers such as Thomas Hobbes (1588–1679), Niccolo Machiavelli (1469–1527), Hugo Grotius (1583–1645), John Selden (1584–1654), and John Locke (1632–1704). Again the warning must be sounded that we, in a measure, are rationalizing after the fact; yet in so far as these men were recording the conflicting views that typified the period of mercantilism and strengthened the rulers in their belief in its efficacy, some such rationalizing is helpful in the understanding of the movement.

Machiavelli. Machiavelli, a Florentine historian, statesman, and political theorist, whose name today suggests political trickery, was an observer and admirer of Cesare Borgia—an Italian ruler and "historic monster." Partly from observation, partly from experience, and fired by a sincere interest in building an Italian nation out of the multitude of states and cities—a nation capable of spreading her sovereignty to the Alps—Machiavelli sought to give advice to the prince capable of fulfilling this goal. Dedicated to the Medici, his book[6] created a tremendous amount of discussion and won favor again in later centuries in Germany, Italy, Russia, and elsewhere. One of the requisites, according to the writer,

[6] Machiavelli, Niccolo, *The Prince* (Everyman ed.; New York: E. P. Dutton & Co.).

was the substitution of a strong standing army for the mercenaries which seemed to be the unsatisfactory though customary army of the period. His "advice" to the ruler who would accomplish the unifying process was based on a very low opinion of people whose character involved cowardice, deceit, greed, and a lack of gratitude. His suggested method of dealing with them permitted the ruler in his ruling capacity to be revengeful, dishonest, tricky, two-faced—the end seemingly justifying the means. Even a discreet use of cruelty and assassination were not to be condemned since hypocrisy and deceit lay at the bottom of political success.

The internal end of a state was not justice, as Plato and others saw it, but industrial and commercial prosperity. The external goal was national greatness among the nations of the world, manifested by constant expansion. Internally, the best sanction was fear. While a ruler might well seek the love of his people and while goodness, virtue, and religion were not to be ignored, they were to be prized only to the extent that they might prove profitable.

Machiavelli offered a five-point program of nationalism:

1. The increase of population
2. The expansion of trade and commerce
3. The formation of favorable alliances
4. The maintenance of a standing army
5. The use of diplomacy

It is interesting to note that he looked upon diplomacy as the best method —even stronger than any army. The army was to be used when diplomacy failed. It was to be used for offensive warfare and for conquest. He regarded war as a natural and inevitable means of nationalistic expansion. Expansion was for Machiavelli much the same as it came to be for the geopoliticians of our own day—the life of the state. The concept here is that a state is like a person. It must continue to grow in order to live. Its growth depends upon its ability to feed on the territory surrounding it. The people in a conquered territory were to be allowed some liberty in the pursuit of their customs, but a troublesome people was to be wiped out or deported and their places taken by "colonists."

A Brief Digression Showing a Contrasting View. If a brief digression in the sense of jumping a few centuries be permitted, a wholesome antithesis of Machiavellian teachings might be pointed out. George Washington in his *Farewell Address* pictured a nation as being subject to the same standards as an upright individual:

> Of all the dispositions and habits which lead to political prosperity, Religion and Morality are indispensable supports. In vain would that men claim the tribute of Patriotism, who should labor to subvert these great pillars of human

happiness, these firmest props of the duties of Men and Citizens. The mere Politician, equally with the pious man ought to respect and to cherish them. . . . .

Observe good faith and justice towards all Nations, cultivate peace and harmony with all; Religion and Morality enjoin this conduct; and can it be that good policy does not equally enjoin it? It will be worthy of a free, enlightened, and, at no distant period, a great Nation, to give mankind that magnanimous and too novel example of a people always guided by an exalted justice and benevolence.

The first president further stressed the fact that "virtue or morality is a necessary spring of popular government," that "justice and humanity impose on every nation" certain obligations. He likewise phrased his belief clearly by declaring: "I hold the maxim no less applicable to public than to private affairs, that honesty is always the best policy." And he paid his respects to international diplomacy by remarking that "there can be no greater error than to expect, or calculate upon real favors from nation to nation. 'Tis an illusion which experience must cure, which a just pride ought to discard."[7]

Thomas Hobbes. In England, Thomas Hobbes was pointing out that the ruler was supreme over individuals, guilds, and other groups which were asserting autonomy, that men had to place public necessity above their own private interests, and that they were not to question the ruler's methods since the ruler was motivated by reason. Hobbes' writings also pointed to a justification of national self-interest since any group not under the same sovereignty was to be considered as living in a state of nature; this was a state in which fear of punishment alone kept men from doing acts which were unjust and immoral. A corollary of this principle would justify war with foreign nations since might was all that men in a state of nature understood.

Hobbes applied the control of the sovereign to international trade as well since he saw no difference between this power, and the power, let us say, to distribute lands at home:

So also to assigne in what places, and for what commodities, the subject shall traffique abroad, belongeth to the Soveraign. For if it did belong to private persons to use their own discretion therein, some of them would bee drawn for gaine, both to furnish the enemy with means to hurt the Common-wealth, and hurt it themselves, by importing such things, as pleasing mens appetites, be nevertheless noxious, or at least unprofitable to them. And therefore it be-

[7] The "Farewell Address" has been reprinted often. It is read annually and printed in the *Congressional Record* in observance of Washington's birthday. It may be found in the convenient volume *Foundations of America* (New York: Sun Dial Press, 1938), pp. 108–24.

longeth to the Common-wealth, (that is, to the Soveraign only,) to approve or disapprove both of the places, and matter of forraign Traffique.[8]

Grotius, Selden, and Locke. Hugo Grotius (1583–1645), the Dutch jurist, differed on the question of the sovereign state's power. He believed that the state was subject in its conduct to the same all-embracing rules as governed the conduct of private men. John Selden (1584–1654) argued for the rights of individuals against the crown. John Locke (1632–1704), the English philosopher, was a defender of individual liberty, holding that sovereignty resided in the people, that government was simply the trustee. Events proved, however, that the views of Machiavelli and Hobbes triumphed.

At this time, men were likewise concerned with sovereignty over the sea. Grotius wrote his *Mare Liberum* (The Open Sea) which argued for freedom of the seas, while Selden took the opposite point of view in his *Mare Clausum* (The Closed Sea). Selden, a friend of Hobbes, was called by Milton "the chief of learned men reputed in this land." Possibly some idea might be got of the times in which these men lived from the allegory attributed to Selden, whose thesis that the sea could become the private dominion of a nation in the same way as land, influenced the growth of navies and international law:

Wise men say nothing in dangerous times. The lion, you know, called the sheep to ask her if his breath smelt; she said aye; he bit off her head for a fool. He called a wolf and asked him; he said no; he tore him in pieces for a flatterer. At last he called the fox and asked him. Truly he had got a cold and could not smell.

Although it has been remarked that Selden's "cold" was chronic, he was imprisoned for his views from 1629 to 1631.

The Diet for Growing States. The economic tools of mercantilism or the diet for growing states as seen by the mercantilists called for the accumulation of treasure, the control of goods both as to their manufacture, import, and export, the encouragement of a large population with special emphasis on the skilled worker, the assurance of an abundant food supply, the establishment of colonies, and the building up of a large navy and merchant marine. Stated in another way, the mercantilists might be pictured as asking themselves, "How can we build a great nation out of numerous petty local communities and economies?" And we can postulate their answer: "First let us bring home to the people the lesson that the nation is supreme and that the individual is subordinate. Next we must accept as our symbol of national greatness a strong king. The strength of the king, in turn, is brought about through the accumulation

[8] *Leviathan,* 1651. The quotation cited is found in chap. 24, p. 192, in the reprint of 1881.

of great treasure which can be used to hire mercenaries to carry on warfare if necessary. In the struggle for this treasure, special attention must be given to encouraging the export of goods which helps to increase it and discouraging the import of goods which takes it out of the kingdom.

"Next, a great king must have a populous kingdom. Not only does a large population serve as a recruiting ground for soldiers, but it supplies an abundant labor supply which will enable manufacturers to produce products cheaply and undersell competing nations—thus increasing exports. Then, too, the population should be augmented by enticing workers from abroad who are highly skilled and to prevent the emigration of skilled workers who might carry industrial arts to some other land. This, too, will bring about a superiority in industry.

"For this large population an abundant food supply is necessary, but it should not be so cheap as to endanger the interest of the landed class engaged in its production. To obtain an abundant supply of raw materials for manufacture (as well as to obtain treasure) it is necessary for the king to establish colonies. These colonies will also serve as a steady market for the products of the home country. Finally, to protect the interests of the home country and colonies alike and to give the king the prestige of a large merchant marine and the power of a large navy, it is incumbent on the king to encourage through subsidies and various privileges the building of many ships."

Let us look more closely at the foregoing aspects of mercantilism as they were put into practice. We shall consider them in this order in this and the following two chapters:

I. Treasure
II. Goods
III. Population
IV. Food
V. Ships
VI. Colonies

1. TREASURE

Early Emphasis of Treasure. An emphasis on the accumulation and retention of treasure is much older than mercantilism. It goes back, as has been remarked, to the Middle Ages when the towns and cities placed restrictions on and repeatedly prohibited the export of currency and the precious metals, and continues even today in the form of war chests, central bank reserves, exchange control, and stabilization funds. Professor Alfred Marshall points out that silver and gold were on the same footing as bowstaves and later gunpowder and that at one period, the importation of bullion or bowstaves was subject to control. He finds "no fundamental difference" between the emphasis on treasure prior to the discovery of the New World when each community was attempting to retain its share

of a dwindling stock of the metals and afterward when national policy dictated their rapid accumulation. "The influx of silver from the New World may have set a score of tongues talking about the trade in the precious metals, where only one had been talking before: but it did not narrow trade policy."[9]

The same viewpoint is found in Schmoller's writings where it is pointed out that

> it was not because money and money payments or industry or trade suddenly played an altogether new role in the days of Cromwell and Colbert, that it occurred to people to guide the course of exportation and importation and colonial trade, and to subject them to governmental control. On the contrary, it was because just then, out of the earlier small communities, great national communities had grown up, whose power and significance rested on their psychological and social concert, that they began to imitate, not what Charles V had done in Spain, but what all towns and territories of earlier times had done from Tyre and Sidon, from Athens and Carthage onward; to carry over what Pisa and Genoa, Florence and Venice, and the German Hanse towns had done in their time to the broad basis of whole states and nations.[10]

The Varying Degree of Emphasis. Writers are by no means agreed as to how much emphasis was placed on treasure by the mercantilists. Professor Lipson makes the point that mercantilist writers were not writing scientific treatises nor trying to analyze the nature of wealth. Rather "they were controversialists engaged in partisan warfare; and pamphlets struck off in the heat of a contest must not be too closely scrutinized, nor judged by occasional lapse and unguarded phrase."[11]

The Bullionists. It is not difficult, therefore, to pick quotations which certainly would make treasure appear to be the most desired form of wealth. The term "bullionists" has been applied by later authors to such writers of the sixteenth century who emphasized the special importance of treasure. One writer regarded bullion as the sun, as the pilot of a ship, as the lymph of the body. Another bemoaned the exchange of "substanciall wares" for such trifles as "cards, puppetes, toothepikes, broches, oringes and a thousand like things" which take away treasure. Another, again, blamed the Italians for bringing with them "things of complacence —apes and japes,—nifles and trifles that littel have availed" and for causing the gold to leave the land—a process that "souketh the thrifte away out of our hand." Still another commented that, although formerly the outcome of a war turned on "personal strength and roughness," the result now was based on "much treasure and little fighting." Defoe wrote, " 'Tis

[9] Marshall, Alfred, *Industry and Trade* (London: Macmillan & Co., Ltd., 1927), Appen. D, pp. 721–22.

[10] Schmoller, *op. cit.*, pp. 60–61.

[11] Lipson, E., *Economic History of England* (London: A. and C. Black, Ltd.. 1931), Vol. III, chap. iv, *passim.*

the longest purse that conquers now, not the longest sword." In 1615, the exporters of gold were called "enemies to Christendom for they carried away the treasure of Europe to enrich the heathen."[12]

An Excess of Treasure Possible. The later mercantilists did not place as much emphasis on treasure, although many continued to regard it as the best indication, if not the chief cause, of material prosperity, whether individual or national. They knew the functions of money, and they grasped the essentials of the quantity theory of money.[13] For example, in 1581, one writer says, "The price of victuals and other wares in like sort is raised according to the increase of treasure." Thomas Mun remarks that "all men do consent that plenty of money in a kingdom doth make the native commodities dearer, which as it is to the profit of some private men in their revenues, so it is directly against the benefit of the public."

Sir Dudley North in 1691 went even further, insisting that stocks of money were no better than stocks of logs, only that "money is much better for transportation."[14] Nicholas Barbon explained the error of "some Men" who confuse money with gold and silver. The value of the former, he believed, was a matter of law, while that of gold and silver was determined by the same forces as fixed the value of copper, lead, and other metals.[15]

In Petty's opinion, "Money is but the fat of the body politic, whereof too much doth as often hinder its agility as too little makes it sick." Roger Coke, writing in 1675, stated that "if we did too much abound in money, this would be a burthen to the nation and of ill consequence to the king and subject (for commodities being valued) according to the plenty of money (those with fixed incomes would suffer from the rise in prices)." Similarly Thomas (1690) asserts that "we must consider money as the least part of the Wealth of any nation, and think of it only as a scale to weigh one thing against another."

Sir Dudley North (1691) regarded money as "a merchandise whereof there may be a glut as well as a Scarcity," and concludes with the wholesome advice, "Then let not the care of specific money torment us so much, for a people that are rich cannot want it."[16] The cameralist Daries

[12] For these and other quotations, see Seligman, E. R. A., "Bullionists," *Encyclopaedia of the Social Sciences*, Vol. III, pp. 60–64; Marshall, *op. cit.*, Appen. D, p. 722 n.; Lipson, *op. cit.*, Vol. II, pp. 279–80.

[13] Lipson, *op. cit.*, Vol. III, p. 63.

[14] North, Sir Dudley, *Essays*, found in Jacob Hollander, *A Reprint of Economic Tracts* (Baltimore: Johns Hopkins University Press, 1905), Vol. II, p. 18.

[15] Marshall, *op. cit.*, Appen. D, p. 723.

[16] Petty, Sir William, *Economic Writings* (Cambridge, Eng.: Cambridge University Press, 1899), Vol. I, p. 113. See also pp. 35, 192–93; Coke, Roger, *Treatise*, 1675, Vol. III, pp. 44, 57–58; *Harleian Miscellany*, Malham ed., Vol. IX, p. 406; North, Sir Dudley, *Discourses upon Trade* (1691), found in Jacob Hollander, *A Reprint of Economic Tracts* (Baltimore: Johns Hopkins University Press, 1905), preface p. ix and pp. 16–17.

states: "The export of gold and silver is only to be obstructed to the extent that it does not work to the good of the state. It is, on the contrary, an evidence of political shrewdness to give foreigners gold and silver if it is possible by this to further the well-being of the state."[17]

The Spanish Experience with Treasure. Writings of partisans aside, however, we are now able to get a clear picture of the mercantilist treatment of treasure, thanks to the monumental research of Professor Earl Hamilton of Duke University.[18] Professor Hamilton has found that the rulers of Castile were ardent mercantilists, that they developed colonies in the New World, that they "spared no pains to attract the largest possible flow of specie to the motherland, and to obstruct its outward passage," and that they "bestowed upon Seville the monopoly of American trade and navigation and required all the gold and silver of the Indies that legally entered Europe to pass through the *coffers of the Casa de la Contratacion* (the "India" House)."[19]

The bait for this treasure consisted of shiploads of goods of all sorts; the return included small quantities of such native produce as hides, copper, tobacco, sugar, indigo, cochineal, and "vast sums of silver." In 1594, for example, gold and silver formed almost 96 per cent of the return cargo; in 1609, 84 per cent. The total importation from 1503 to 1660 reached the enormous sum of approximately 450,000,000 pesos.

"Treasure so far outweighed other colonial products in the eyes of contemporaries, because of both its absolute amount and mercantilist preconceptions, that the fleets plying between Spain and the Indies were spoken of as the 'fleets going to the Indies to bring back the gold and silver of his Majesty and private individuals.'"[20]

The accumulation of this treasure in Spain with no legal exportation allowed except under a licensing system (when there was a scarcity of food) caused prices in Spain to rise to the ultimate and "unremitting economic retrogression for wage earners." This situation was attributed to such factors as alien speculation in foodstuffs and excessive exports of commodities to the New World. It was not blamed upon the influx of American treasure. Professor Hamilton states that "it seems that all the Spanish authors prior to 1650 devoted less than a thousand words to the influence of American treasure upon prices, while entire chapters and even books were written upon several imagined causes of the high cost of living."[21]

---

[17] Daries, Joachim Georg, *First Principles of Kameral Sciences* (Jena, 1756), p. 531; quoted in Haney, Lewis, *History of Economic Thought* (New York: Macmillan Co., 1923), pp. 146–67.

[18] *American Treasure and the Price Revolution in Spain, 1501–1650* (Cambridge, Mass.: Harvard University Press, 1934), pp. 33–34.

[19] *Ibid.*, p. vii.

[20] *Ibid.*, p. 34 n 1.

[21] *Ibid.*, p. 294.

The bullionist viewpoint, however, was not held to rigidly by all mercantilists. There were others in ever increasing numbers who realized that the process of accumulating treasure and allowing no export of gold or silver could not be pursued indefinitely and that it was necessary for a country to buy as well as to sell in the world market.[22]

Three Phases of Mercantilism. The economist, Cossa, following Richard Jones's classification, distinguishes three phases of mercantilism. The first phase was marked by the absolute prohibition of specie export. This was accompanied by the debasement of coinage and the regulation of exchange. The second phase could be called the "balance of bargain"—that is, the licensed export of specie by the regulated companies on the condition that an equal amount or more be brought in as a result of the privilege. The third phase, called the "balance of trade," was based on the reasoning that it was not necessary to supervise each transaction but that over a period of time, taking all transactions into account, a country should sell more than it buys abroad. In fact, the balance of trade might be regarded as the test of this part of mercantilist policy.

The Trade Balance. Prefaced by the notion that the export of specie was harmful and that what one nation gained in trade another nation lost (or, to state it in another way, a transaction could not constitute a gain to both parties) and on the further belief that foreign commerce alone could increase the wealth of a nation (since domestic trade merely transferred it), a great interest was evinced in the matter of trade balance. The balance was considered "favorable" which indicated the sale of more goods to foreigners than were purchased from them; that balance was considered "unfavorable," in turn, which showed the opposite to be true. The former suggested that specie was owing to the country, while the latter meant a drain of the precious metals. Dr. Cunningham relates that, in the days of the Stuarts, men asked each other about the balance of trade in much the same way that they asked about population. For them it was an index both of the opportunity for employment and how commerce was affecting industry. Stated in another way, the balance was to show them the state of foreign competition and the increasing or diminishing opportunities for native workmen.[23]

Professor Haney objects to these phases of mercantilism as "rather superficial" and states that they "do not correspond to any clearly defined historical periods, either in industry or in thought about industry."[24] Yet there can be no question that there was prohibition of specie export, that there was emphasis on the balance of bargain, and that there was, and

---

[22] This will be discussed at length in Chapter VI.

[23] Cunningham, W., *Growth of English Industry and Commerce* (Cambridge, Eng.: Cambridge University Press, 1904), Vol. I, p. 396.

[24] Haney, *op. cit.*, p. 112.

still is, the concern about the balance of trade. Besides the actual prohibition of specie export (and its concomitant evasions through smuggling gold out of the kingdom and keeping money abroad) and some prejudice against importing luxuries, rulers like Elizabeth and her successors reintroduced the medieval Statute of Employment which provided that foreign merchants traveling in England were to spend their money on native commodities so that they would leave England with goods and not gold.[25] It is possible that the development of the international market in exchange, located in Florence from the thirteenth through the fifteenth centuries, in Antwerp from the fifteenth to the end of the eighteenth century, and in England since that time, was an outgrowth of merchants attempting to protect themselves "against the vagaries of princes."[26] Malynes, a writer, speaks of thirty-two schemes to prevent the export of money and bring about the importation of bullion.[27]

The Balance of Bargain. The balance of bargain phase is illustrated by the coveted privilege of the East India Company, which, as we have pointed out in a preceding chapter, was permitted to carry out £30,000 and later on £120,000 on condition that a similar amount be returned after each voyage.[28] This export of specie did not meet with universal approval, however. The company was blamed for the depression following 1620 which was associated in the popular mind with a scarcity of money. Other criticisms were hurled against the company in the succeeding century as well.

It was in defense of the company and its privileges that a number of writers saw fit to record their ideas. The company claimed that it not only brought back more bullion than it exported but that it brought back a surplus of goods which could be sold for additional treasure. Mun maintained that in 1621, £100,000 in bullion brought back almost £500,000 in merchandise—of which three-fourths could be exported in return for more bullion. But typical of the opposite view was that of a Commissioner for Trade and Plantations, John Pollexfen: "We must be very credulous if we believe that the India goods exported bring us back as much treasure as that trade carries from us in bullion."

The Balance of Trade. Eventually the balance of bargain gave way to the newer criterion—the balance of trade. The balance of trade was not easy to estimate, of course. With the custom figures incomplete, with a smuggling trade that must have been enormous, with invisible items not

[25] Lipson, *op. cit.*, Vol. III, p. 70.

[26] Nussbaum, *op. cit.*, p. 70.

[27] Lipson, *op. cit.*, Vol. III, pp. 74–75.

[28] Florence secured all cattle sold from the subject districts and did not permit their return. Sureties were exacted from owners of great flocks driven to the Maremme district to insure the return of the flocks within state boundaries. Such flocks were to be one-third larger in size as well. Schmoller, *op. cit.*, pp. 31–32.

considered, with tariff rates based on values out of harmony with market prices, and with losses at sea not deducted from export figures, it was not possible to be accurate as to the value of exports and imports or even as to whether the balance was favorable or unfavorable.

Nussbaum cites some examples of the favorable balance. The French enjoyed a favorable balance against Spain for a number of years. In 1789, this amounted to 46,000,000 francs paid in coin. A similar relationship existed between England and Spain, the former enjoying a favorable balance of about $2,270,000 annually between 1770 and 1780. Similarly England "gained" in the trade with the colonies, Portugal, and Holland.[29]

Invisible Items. The part played by invisible items was not clear to the earlier mercantilists. These items which helped balance the merchandise side of the ledger consisted of transactions in foreign exchange, discounting, and marine insurance; the direct export of capital for loans in the colonies, in other countries, and to foreign sovereigns; foreign military expeditions; travelers' expenditures; Catholic remittances to Rome; and hiring of mercenaries.[30] Petty did point out, however, that "the labour of seamen and freight of ships is always of the nature of an exported commodity," and Mun recognized travelers' expenditures abroad, foreign military expenditures, freights, remittances to Rome.

Some Views on the Balance of Trade. A few quotations will suffice to show the viewpoint of some of the leading writers who favored the balance of trade measure of prosperity. Davenant, for example, maintained that in order to sell exports a nation must also be willing to buy. Mun held a similar view: "If we . . . . use few or no foreign wares, how shall we then vent our own commodities?"

Other writers regarded trade as a world phenomenon and frowned upon the narrower conception held in their day. Writing in 1641, Robinson argued that foreign wares are largely bartered for native and "we (the English) should not have vented ours in so great quantity without taking theirs."

Sir Dudley North not only argued that the "whole as to trade is but as one nation or people, and therein nations are as persons" and that the loss of trade with one nation is "so much of the trade of the world rescinded and lost," but also considered the whole question of gold and silver in relation to increasing the wealth of a nation. For North, gold and silver were "in no sort different from other Commodities, but are taken from them who have Plenty, and carried to them who want, or desire them, with as good profit as other merchandizes." Nevertheless, "this proposition, as single and plain as it is, is seldom so well understood, as to pass with the generality of Mankind; but they think by force of Laws,

[29] Lipson, *op. cit.*, Vol. III, pp. 92–94; Nussbaum, *op. cit.*, pp. 240–241.
[30] Nussbaum, *op. cit.*, p. 242.

to retain in their Country all the gold and silver which Trade brings in; and thereby to grow rich immediately: All which is a profound Fallacy . . . . whereby the growing Wealth of many Countries have been obstructed." In North's opinion, "Gold and silver, and, out of them, money are nothing but Weights and Measures, by which Traffick is more conveniently carried on, then could be done without them: and also a proper Fund for a surplusage of Stock to be deposited in." And "if your Trade pours in never so much Money upon you, you have no more advantage by the being of it Money, then you should have were it in Logs or Blocks; save only that Money is much better for Transportation than Logs are" his general conclusion being, "then let not the care of Specifick Money torment us so much."[31]

From a practical point of view, the conditions of the times were such that, even if a favorable balance appeared, it could have been a fictitious one. Adam Smith has written:

> Heavy duties being imposed upon almost all goods imported, our merchant importers smuggle as much and make entry of as little as they can. Our merchant exporters, on the contrary, make entry of more than they export; sometimes out of vanity, and to pass for great dealers in goods which pay no duty, and sometimes to gain a bounty or a drawback. Our exports, in consequence of these different frauds, appear upon the customhouse books greatly to overbalance our imports, to the unspeakable comfort of those politicians who measure the national prosperity by what they call the balance of trade.[32]

II. GOODS

Some Trade Considered Necessary; Some Disadvantageous. Although mercantilist rulers placed a formidable barrier in the way of international trade by their emphasis on treasure and favorable trade balances, they were not averse to all trade. They recognized that some imports were necessary while others were disadvantageous. In the first classification they included naval stores and other necessities, and in the second classification they encompassed not only foreign goods that competed with home production but also luxuries which caused money to flow out in payment. In the same way, they did not look with enthusiasm on all exports. The export of raw material, for example, was to be hindered, while that of manufactured goods and goods abundant in supply was to be facilitated in every possible way.

Methods Used. The various devices employed to accomplish these goals may be classified under two headings: (1) the prohibition and discouragement of imports; and (2) the building-up of home industries

[31] North, *op. cit.*, pp. 25, 28.

[32] Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Everyman ed.; New York: E. P. Dutton & Co.), Vol. II, p. 363.

to the point of producing an export surplus. The first of these involved not only the absolute prohibition of importation or use of certain goods but also the discouragement by the imposition of tariffs. The second sought to build up home industries through the provision of a domestic market, the payment of bounties through other government favors, and raw material control.

The Prohibition and Discouragement of Imports. Let us consider briefly a few illustrations of the legal enactments intended to accomplish these results. At one time or another, the English placed a prohibition on the importation of girdles, rapiers, daggers, knives, saddles, stirrups, gloves, leather, laces, pins, hats, wool-cards, silks, bonelace, cambrics, cutlery, hardware, French wines, brandy, vinegar, linen, cloths, salt, and paper. During periods of war, of course, the list was all-inclusive. The French on one occasion or another excluded certain manufactures from Holland and from England. In Germany, Frederick the Great not only forbade any future importation of silks and cotton goods but ordered those already in the country to be exported.[33]

The prohibition on the use of foreign goods is illustrated by laws in England forbidding the wearing of felt or velvet hats by anyone below the rank of a knight and by the ban placed on the wearing of cambric or French lawn. This latter law was backed by a penalty of £5 imposed alike on those who wore it or sold it. On another occasion, when the use of white calico was permitted, no one was to wear painted, flowered, or dyed calico.

The Use of Tariffs. Extraordinarily high tariffs were also brought into play. Their underlying philosophy was expressed in James I's *Book of Rates*: "If it be agreeable to the rule of nature to prefer our own people before strangers, then it is much more reasonable that the manufactures of other nations should be charged with impositions than that the people of our own kingdom should not be set on work."

Colbert in France placed high rates on foreign manufactured goods and somewhat lower rates on raw materials. The act of 1667 virtually was prohibitory against the former type of goods. During much of the eighteenth century, moreover, 75 per cent was the lowest duty imposed on French goods by the English. The French retaliated with similar rates. It is interesting that some evasion was attempted when the tariff rates were high against the products of certain countries. For example, false labeling of French wines and their import into England as Spanish wines is reported as early as 1685.

Home Industries. The building up of home industries, with the dual purpose of cutting down imports and aiding exports, was attempted through some amusing legislation. In 1571, in answer to the cappers'

[33] Lipson, *op. cit.*, Vol. III, chap. iv, *passim.*

complaint that Englishmen had stopped wearing hats, Queen Elizabeth ordered that all persons over six years of age "except ladies and gentlemen" had to wear a cap of wool fully "wrought" in England on every Sunday and holy day under penalty of 3*d*. or 4*d*. for each offense. In 1666 no person was to be buried in any "Shirt . . . . or Sheets made of or mingled with Flax, Hemp, Silk, Haire, Golde, or Silver, or other than what shall be made of wooll onely" under penalty of a fine of £5. Based on an estimate that 140,000 people died in England each year, the industry could expect a good market. The same industry received additional aid some years later when it was made incumbent on all English people to wear stockings and other garments made of wool (except garments made of leather) from the Feast of All Saints to the Feast of the Annunciation of Our Lady inclusive (November 1 through March 25). Again "all magistrates, judges, students of the Universities, and all professors of the Common and civil law" were to wear gowns made of wool. In France, Colbert went to the extreme of placing large orders for goods which were not needed in order to save businesses which faced ruin or loss. All in all, he issued thirty-two sets of regulations and over 150 edicts relating to manufacturing intended to insure the quality of French goods and make France self-sufficient.[34]

Bounties. Bounties were given on many occasions. These were offered at different times on flax and linen, grain, sailcloth, whale fishing, white herring fishing, cordage, and vessels exceeding a certain tonnage. Colbert is said to have spent 5,500,000 francs in this way. Some 50,000 to 80,000 florins were spent annually by Austria. Later on in England, the bounties were placed on the export of wares rather than on their production. In Prussia, likewise, bounties were paid on silk cloth.

Other Encouragements. Other encouragements were offered particularly in France in the form of exemption from taxation, exclusive sale privileges, and even titles of nobility to successful manufacturers. These methods helped the development of industries producing textiles, articles of taste, laces, tapestries, soap, iron, porcelain, glassware, and naval stores. Colbert also invested government money in some of these ventures. In this connection he established stud farms for raising draft animals so as to break away from dependence on foreign sources.

Treatment of Raw Materials and Implements. We come, finally, to a consideration of the limitation on the exports of raw materials and implements placed by the mercantilists in order to insure an abundant and cheap supply for domestic manufactures and, at the same time, to prevent the export of certain implements. The rulers of Holland prohibited the export of native horses, weapons and other war materials, grain, quicksilver, copper, leather, and brass. English history is replete with illustra-

[34] Packard, *op. cit.*, p. 60.

tions of special consideration given the wool supply. Both England and France forbade its export during the Middle Ages. The former limited the export in the sixteenth century and stopped it entirely in 1660.

Adam Smith describes this legislation at length:

By the 8th of Elizabeth, the exporter of sheep, lambs, or rams was for the first offence to forfeit all his goods forever, to suffer a year's imprisonment, and then to have his left hand cut off in a market town upon a market day, to be there nailed up; and for the second offence to be adjudged a felon, and to suffer death accordingly. To prevent the breed of our sheep from being propagated in foreign countries seems to have been the object of this law. By the 13th and 14th of Charles II, chap. 18, the exportation of wool was made felony, and the exporter subjected to the same penalties and forfeitures as a felon.

For the honour of the national humanity, it is to be hoped that neither of these statutes was ever executed. The first of them, however, so far as I know, has never been directly repealed. It may, however, perhaps be considered as virtually repealed by the 12th of Charles II, which, without expressly taking away the penalties imposed by former statutes, imposes a new penalty, viz., that of twenty shillings for every sheep exported, or attempted to be exported, together with the forfeiture of the sheep and of the owner's share of the ship. The second of them was expressly repealed by the 7th and 8th of William III. By which it is declared that, Whereas the statute of the 13th and 14th of King Charles II., made against the exportation of wool, among other things in the said act mentioned, doth enact the same to be deemed felony; by the severity of which penalty the prosecution of offenders hath not been so effectually put in execution: Be it, therefore, enacted by the authority aforesaid, that so much of the said act, which relates to the making the said offence felony, be repealed and made void.

The penalties, however, which are either imposed by this milder statute, or which, though imposed by former statutes, are not repealed by this one, are still sufficiently severe. Besides the forefeiture of the goods, the exporter incurs the penalty of three shillings for every pound weight of wool either exported or attempted to be exported, that is about four or five times the value. Any merchant or other person convicted of this offence is disabled from requiring any debt or account belonging to him from any factor or other person. Let his fortune be what it will, whether he is or is not able to pay these heavy penalties, the law may ruin him completely. But as the morals of the great body of the people are not yet corrupt as those of the contrivers of this statute, I have not heard that any advantage has ever been taken of this clause. If the person convicted of this offence is not able to pay the penalties within three months after judgment, he is to be transported for seven years, and if he returns before the expiration of that term, he is liable to the pains of felony, without benefit of clergy. The owner of the ship, knowing this offence, forfeits all his interest in the ship and furniture. The master and mariners, knowing this offence, forfeit all their goods and chattels, and suffer three months' imprisonment. By a subsequent statute the master suffers six months' imprisonment.

In order to prevent exportation, the whole inland commerce of wool is laid under very burdensome and oppressive restrictions. It cannot be packed in any box, barrel, cask, case, chest, or any other package, but only in packs of leather or pack-cloth, on which must be marked on the outside the words *wool* or *yarn*, in large letters not less than three inches long, on pain of forfeiting the same and the package, and three shillings for every pound weight to be paid by the owner or packer. It cannot be loaden on any horse or cart, or carried by land within five miles of the coast, but between sun-rising and sun-setting, on pain of forfeiting the same, the horses and carriages. The hundred next adjoining to the sea-coast, out of or through which the wool is carried or exported, forfeits twenty pounds, if the wool is under the value of ten pounds; and if of greater value, then treble that value, together with treble costs, to be sued for within the year. The execution to be against any two of the inhabitants, whom the sessions must reimburse, by an assessment on other inhabitants, ...

But in the particular counties of Kent and Sussex, the restrictions are still more troublesome. Every owner of wool within ten miles of the sea-coast must give an account in writing, three days after shearing, to the next officer of the customs, of the number of his fleeces, and of the places where they are lodged. And before he removes any part of them he must give the like notice of the number and weight of the fleeces, and of the name and abode of the person to whom they are sold, and of the place to which it is intended they should be carried. No person within fifteen miles of the sea, in the said counties, can buy any wool before he enters into bond to the king that no part of the wool which he shall so buy shall be sold by him to any other person within fifteen miles of the sea. . . . .[35]

Similar restrictions on the coastwise carrying trade were intended to remove any loophole in the export of wool which the above legislation might have afforded. In the next chapter, we shall see further safeguards to prevent workers skilled in the English arts from leaving England and establishing similar ventures elsewhere.

SUMMARY

"Mercantilism" was the group of ideas and practices current in Europe in the sixteenth, seventeenth, and eighteenth centuries, having as their purpose the building of strong political states and economic self-sufficiency through the use of economic tools. The economic tools were treasure, goods, population, food, ships, and colonies. The publicists of the period also were engaged in writing pro and con about the freedom of the seas and the supremacy of the state over its citizens.

Treasure was given a very high place in mercantilism. Many ways were conceived of attracting it, and numerous laws were adopted to prevent its

[35] Smith, *op. cit.*, Vol. II, pp. 143–45.

export. This concern for treasure left us with the concepts of "favorable" and "unfavorable" balances of trade.

The mercantilists adopted numerous devices both for the prohibition or discouragement of imports and the building up of export trade. Among the former were tariffs; among the latter were bounties and favorable tax treatment.

QUESTIONS FOR DISCUSSION

1. How did the concept of citizenship in medieval England differ from that of today? What effect did this difference have on commercial policies and practices?
2. Explain the two theories regarding the development of mercantilism. To which do you subscribe? Why? Explain the terms "micro-mercantilism" and "macro-mercantilism."
3. It has been said that mercantilism is simply the economic aspect of nationalism. Comment.
4. Discuss the philosophical bases of mercantilism. What were the contributions of Machiavelli? Of Hobbes? What was the position of Grotius, Selden, and Locke?
5. State the fundamental objectives of mercantilism, and outline briefly the policies designed to accomplish these objectives.
6. What was the position of the mercantilists with respect to the importance of the precious metals?
7. What is the quantity theory of money? What evidence is there that some of the later mercantilists understood it? How did this affect their reaction to bullionism?
8. List the three phases of mercantilism with respect to trade policies. Explain each carefully.
9. Explain why it was frequently difficult to determine the nature and extent of a nation's trade balance.
10. Although the mercantilists generally favored an excess of exports over imports, they did not encourage all exports, nor did they discourage all imports. What kinds of goods was it thought desirable to import? What types of exports were looked upon with disfavor?
11. What methods did mercantilist rulers employ to build up a "favorable" balance of trade?

CHAPTER V

MERCANTILISM: POPULATION, FOOD, AND SHIPPING POLICY

III. POPULATION

The Importance of Population. Mercantilists desired a large population for two reasons. At first, a large population was seen as a source of many fighting men which, of course, was conducive to the greatness of the kingdom. Later on another need was found—an abundant labor supply to fill the steadily growing demand for laborers in a society that was becoming industrialized. We may differentiate three parts of the mercantilists' population policy—the encouragement of native population, the discouragement of emigration (particularly of skilled workers), and the encouragement of immigration.

The Encouragement of Native Population. The increase of native population called for the encouragement of early marriages and large families. Among the incentives used were generous poor relief, exemption from taxation, the payment of bounties and pensions, and the discouragement of monastic life and the church career which entailed celibacy. Colbert paid pensions of a thousand livres to noblemen with families of ten or more children and exempted large families from all taxation on condition that no son become a priest or monk and no daughter a nun. The same general situation prevailed in Germany and other mercantilistic states. Even in England (which for many years was regarded as overpopulated), statesmen came to look with concern on the migration of population to the colonies and losses through plagues, civil war, and external conflict.[1]

The Attitude toward Labor-Saving Devices. Corn laws, as pointed out above, also were intended to afford a cheap and abundant food supply for the population. Another form of encouragement manifested itself in an attitude toward labor-saving devices which threatened to displace workers. Sometimes the opposition came from the workers themselves, but just as frequently the workers were aided by governmental decree.

---

[1] Packard, Laurence B., *The Commercial Revolution* (New York: Henry Holt & Co., 1927), p. 59; Heaton, Herbert, *Economic History of Europe* (New York: Harper & Bros., 1936), p. 39.

In England, in the thirteenth century, the fullers opposed the water mills. In a later century, weavers destroyed ribbon looms. More or less serious uprisings took place in 1551, 1571, 1582, 1616, and 1669.

Parliament on various occasions forbade shearmen to use any other instrument than broad shears and condemned engines used for stretching and straining cloth as well as gig mills for raising the nap. But the gig mill was used in spite of the law—the evasion being covered up by calling the machine by another name (mozing mill). The Stuart government went on record as opposing labor-saving devices because of the multitude of poor artisans. A protest in 1621 was made against "that devilish invention of looms brought in by strangers, which, by working twelve to twenty-four shuttles at once, are the destruction of many poor."[2]

The Discouragement of Emigration. The ban on emigration arose out of a twofold fear. No mercantilist state could view a diminution of her population with complacency even when that population was moving to a colony owned by the mother-country. But perhaps even more alarming was the fear that the emigrant would carry with him the secrets of domestic machinery and technical methods. Resort was had, accordingly, to typical mercantilistic legislation with its accompanying penalties and evasions.

The Enticer and the Emigrant. Agents who arranged the emigration of these skilled artisans were called "enticers," and numerous complaints were registered against the enticing of shipwrights, gun founders, framework knitters, paper makers, and watchmakers. Lipson refers to the fear aroused by the action of English tobacco merchants who contracted with the czar to send to Russia, "persons skilled in the spinning and rolling of tobacco . . . . together with instruments, engines, materials and liquors commonly used in that work . . . . proceedings of most pernicious consequence." In 1591, a man about to leave England bound himself not to give any advice on the making of cloth, not to entice any fellow-workers to leave, and to seek the return of two English weavers and all other Englishmen skilled in cloth-making then resident in Pomerland.[3] Complaint was also made against the German coarse woolen trade set up by Englishmen and against similar trades in Portugal and Spain which threatened the English product. In 1624, the English were concerned by France's attempt "to seduce beyond the seas, the workmen in His Majesty's furnaces for making of iron ordnance." The law of 1718 sought to put an end to the enticing on the part of "divers ill-disposed persons" who had "drawn away and transported artificers and manufacturers out

[2] Lipson, E., *Economic History of England* (London: A. and C. Black, Ltd., 1931), Vol. III, pp. 51–53, quoting *State Papers Domestic, 1619–1623*, p. 271.
[3] *Ibid.*, p. 48.

of His Majesty's dominions into foreign countries by entering into contracts with them to give them greater wages than they have or can reasonably expect to have within this kingdom, and by making them large promises and using other arts to inveigle and draw them away." Professor Heaton points out that the problem became "much more important after 1760 when artisans were building or working the new equipment." He shows the extreme to which Wedgwood, the potter, was willing to go by proposing that the post office be authorized to open letters addressed to workmen or to foreign manufacturers to learn of any proposed emigration.[4]

Various acts were passed punishing both the enticer and the emigrant. In the reign of George I, for example, an enticer faced a penalty, for the first offense, of a fine up to £100 and three months' imprisonment. The imprisonment continued, moreover, until the fine was paid. The penalty for the second offense provided for a fine amounting to whatever the court imposed and twelve months' imprisonment—again prolonged until the fine was paid. A heavier penalty was enacted in the reign of George II. A first offense meant a fine of £500, twelve months' imprisonment and until the fine was paid; a second offense, £1000, two years' imprisonment and until the fine was paid.

The former legislation also provided that, if any individual had been enticing any worker or if such worker had promised to emigrate, the latter must give security required by the court that he would not leave England. He could be imprisoned until such security was given. In the case of artisans who had already emigrated and were exercising their trade or teaching it to foreigners, they were to be warned by English consuls or other officials to return to England within six months. Should they refuse, they were then to be punished in the following manner: They rendered themselves incapable of inheriting any property in England, of serving as executor or administrator for an estate, or of purchasing any property. They also forfeited all of their land and goods to the king and were declared to be aliens and outside of the king's protection.

The Ban on the Export of Tools and Specifications. Not only were workmen hindered, but, as pointed out in an earlier chapter, the exportation of tools and machinery as well was forbidden by law. This applied alike to models, specifications, and drawings. "Foreigners and their baggage," according to Heaton, "were carefully watched, a German was caught with a model of a spinning machine, and a departing Dane was deprived of a large notebook full of drawings of pottery equipment. The laws were not easily enforced, and no customs officer could prevent

[4] Heaton, *op. cit.*, p. 390.

Samuel Slater from carrying to America, in his head, the knowledge he had acquired by building and working spinning machines."[5]

It is interesting to note Adam Smith's sarcastic comment on this type of legislation: "The laudable motive of all these regulations is to extend our own manufactures not by their own improvement, but by the depression of those of all our neighbors, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals. Our master manufacturers think it reasonable that they themselves should have the monopoly of the ingenuity of all their countrymen."[6]

The Encouragement of Immigration. In no phase of mercantilistic principle do we see more clearly the impossibility of two nations seeking the same goal and remaining on a friendly basis. While seeking to prevent emigration, each nation was encouraging immigration. While seeking to prevent the exportation of tools and machines, each nation was encouraging their importation. Since every immigrant into one country is also an emigrant from another country, it follows that the attempt to keep natives at home is opposed to the activities of other countries seeking to entice that native abroad. In premercantilistic times, Edward III of England attracted German miners to help teach his subjects copper mining. At other times, German and Dutch workers were brought in to assist with other types of mining and industries. In 1672, Charles II issued a proclamation inviting settlers from the United Provinces. Similar invitations were issued in 1681, 1685, and 1689. Colbert also sought to entice skilled workers to France. Various incentives were held out in Prussia and elsewhere in the form of very low taxes, exemption from taxes especially in cases of newly married artisans who were also given freedom from military service for three years, granting of citizenship and of rights of master tradesmen without charge, and promising religious and intellectual freedom and impartial justice. The success of these policies is shown, according to Lipson, by the fact that aliens influenced every branch of English national economy.

Industries Created by Immigrants. The establishment of new draperies in the woolen industry; the making of fine linen; the revival of the silk industry; an improved art of dyeing; the copper, brass, steel, and glass-making industries; the development of the cutlery trade, chinaware, paper and cordage—all of these may be credited to the influx of foreign workers. They also became prominent in engineering and designing. In Germany, likewise, the same policy when followed by Frederick the Great attracted 30,000 immigrants into Silesia alone. The mining industry in Si-

---

[5] *Ibid.*, pp. 390–91.

[6] Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Everyman ed.; New York: E. P. Dutton & Co.), Vol. II, pp. 153–54.

lesia, iron manufacturing in Eberswalde, the iron foundries of Berlin, the silk industry of Crefeld, the weaving industry in Elberfeld and Barmen, the linen industry in Billefeld, and the bleaching process developed under his guidance.

IV. FOOD

Why Food Was Stressed. One type of goods, namely, food was of special concern to the mercantilists. This was in keeping with the guild idea of regulation and also aided the general policy of nation building. An abundant food supply was necessary to care for the large population which the mercantilists preached, while a cheap food supply was supposed to give manufacturing industries a cheap labor supply. This latter, in turn, would enable manufactured goods to enjoy an advantageous low-price position in the foreign market. On the other hand, when a ban on importation was imposed, the reasoning was that the increased price to the consumer was more than balanced by the national gain of having a vigorous agricultural population.[7]

This emphasis on an adequate food supply was not new with the mercantilists. In ancient and medieval times, legislation sought this end sometimes through price fixing and sometimes through prohibition of or restrictions on exportation. At other times, domestic production was stimulated by restrictions on importation or actual prohibition.

British Legislation. British legislation approached the problem by guarding the consumer's interests (much as the guilds had prevented forestalling, regrating, and engrossing), although, as Cunningham points out, there were times when the producer had to be aided lest tillage would decline. In the century following the Black Death, there were some years when it was necessary to allow exports in order to obtain better prices, although the greater part of the century was marked by prohibition of exports. In 1436, a definite price was fixed for corn (grain) and exportation was to be allowed when the price fell to *6s. 8d.* per quarter or less. In 1436, producers were given an advantage through the restrictions placed on importation, but at other times it was possible for importers to obtain special permission from the rulers who came to regard licenses for this purpose as a revenue producer.[8] Some rulers imposed export taxes on grain sent out of the country. Queen Elizabeth and her followers emphasized interest in the producer, although the consumer was not ignored. In 1689, a corn bounty act was passed providing for the payment of bounties on corn exports if prices went below *48s.* This policy was maintained, except in

[7] Warner, George Townsend, *Landmarks in English Industrial History* (London: Blackie & Son, Ltd., *cir.* 1898), pp. 157–59.
[8] Cunningham, W., *Growth of English Industry and Commerce* (Cambridge, Eng.: Cambridge University Press, 1904), Vol. I, p. 85.

famine years, until 1773, although the growth of population after 1740 absorbed much of the domestic supply and cut down the surplus available for export. After 1773, it became necessary to encourage the importation of grain in years of scarcity and high prices. By 1793, exportation ceased and such regulation as was undertaken was concerned with importation.[9] Corn laws were not abolished, however, until 1846—after years of activity on the part of the Anti-Corn Law League and its picturesque leader, Richard Cobden.

V. SHIPPING POLICY

The Need for a Shipping Policy. A shipping policy or the navigation acts, as the collection of laws were called in England, constituted a vital part of mercantilism. Aside from the prestige of a large navy and the resultant appeal to national honor, there were positive benefits found in the profits of shipbuilding and the retention of freight and insurance charges which would otherwise enrich the foreigner. A large navy, moreover, was essential to the maintenance of colonies, which were to constitute the source of raw material for the mother-country and a ready market for the latter's manufactured goods. Finally, a merchant marine was regarded as a potential navy in time of war.

The Tudor attitude is well expressed in the act of 1540, which states:

> The navy of this realm in times past hath been and yet is very profitable, requisite, necessary and commodius as well for the intercourse and concourse of merchants transporting and conveying their wares and merchandises as is above said, as well to offend as defend, and also the maintenance of many masters, mariners and seamen, making them expert and cunning in the art and science of shipmen and sailing, and they, their wives and children, have had their livings of and by the same, and also hath been the chief maintenance and supportation of the cities, towns, villages, haven and creeks, near adjoining unto the sea coasts, and the king's subjects, bakers, brewers, butchers, smiths, ropers, shipwrights, tailors, shoemakers, and other victuallers and handicraftsmen inhabiting and dwelling near unto the said coasts have also had by the same and great part of their living.[10]

The Encouragement of Shipbuilding. A survey of the laws and proclamations during the period indicates that shipbuilding was encouraged in the following ways:

1. By assuring shipbuilders a good market through the insistence on the use of native-built ships in foreign and coastal trade.

---

[9] Ogg, Frederic Austin, and Sharp, Walter Rice, *Economic Development of Modern Europe* (New York: Macmillan Co., 1926), p. 247.

[10] Quoted in Lipson, *op. cit.*, Vol. I, p. 506.

2. By confining colonial trade to native bottoms.
3. By granting builders and owners loans and subsidies.
4. By giving special treatment to naval stores.
5. By levying lighter customs on goods carried in native vessels.

We find French mercantilism, under the guidance of Colbert, granting liberal bounties to French-built vessels and providing that French colonies export raw material to France in French bottoms and import manufactured goods from France in French ships. Heavy taxes were imposed in the form of tonnage duties on foreign ships coming to France. The production of naval stores such as pitch, anchors, spars, sails, cables, and other supplies were given special encouragement. Similar policies were employed in Sweden, Prussia, Spain, Holland, and other portions of Europe.[11]

England, because of her island character, her colonial empire, and her geographical position, developed this phase of mercantilism to its fullest degree. Even before the mercantilist period, English rulers had carried over from medieval times certain naval policies. In the fourteenth century (1381), it was provided that "none of the King's liege people do from henceforth ship any merchandise in going out or coming within the realm of England, in any port, but only in ships of the King's liegance." In the following year it was deemed necessary to make exception because of the lack of such ships. The early Tudors forbade the use of foreign ships again and again.

This ban was also reasserted in the act of 1563, which also applied the law to the coastal trade—a law that has long been a part of modern commercial policy. At other times, the requirement was softened and only certain commodities from particular areas had to be imported in British vessels. Charles I not only continued the severer restrictions but also forbade the sale of sizable vessels to foreigners.

Other Forms of Encouragement. But there were other favors granted the shipbuilders and shipowners who made the claims which have become so familiar in subsequent years that the cost of shipbuilding was higher in England than elsewhere and that the freight rates charged by English vessels were higher than those charged by the French and the Dutch. Special custom rates were given to goods imported in British bottoms. Queen Elizabeth, for example, who did not pursue the restrictive policy of her predecessors, nevertheless provided for the free importation of goods when brought in English vessels. Certain commodities, however, were excluded. Among these were meats, pitch, tar, and corn.[12] This type of legislation was the forerunner of the navigation acts.

---

[11] Packard, *op. cit.*, pp. 63–64; Heaton, *op. cit.*, p. 395.
[12] Lipson, *op. cit.*, Vol. III, p. 116.

The Navigation Acts. To encourage shipbuilding, the demand for ships was assured by requiring, as in the first Navigation Act of 1651, that all importations from Asia, Africa, or America into England, Ireland, or the plantations be in English-owned vessels manned by a majority of English masters and men. Violation involved the forfeiture of the vessel as well as cargo. The act also provided that goods brought to England from other countries be carried in English ships or those flying the flag of the country where the goods originated. Certain refinements were added in the years which followed. For example three-fourths of the seamen were to be English; all ships concerned with colonial exports or imports were to be carried in ships owned by English subjects—colonists being included in this term. Ships were to be built in the king's dominions or else the cargoes were to pay alien duties. In addition, certain relaxations or exceptions to the general laws are matters of record. The navigation acts lasted in one form or another far beyond the mercantilist period, the last act having been passed in 1845 and repealed in 1849.

A Training Ground for Seamen. The mercantilists did not stop with the encouragement of shipbuilding and the assurance of cargoes. They saw the need for trained sailors who, in turn, could best be recruited from fishermen inured to the hardships of the sea. Then, too, the fisheries themselves were regarded as a source of wealth. They underlay much of the Hanseatic League's prosperity. The Dutch regarded them as the "golden mines" of their country, capable of yielding more treasure than the mines of Potosi or both Indies, and at one time the fleet numbered as high as 8,000 vessels.

Fish Days. England established "fish days" in order to help the sailor-training industry. Edward VI forbade the eating of meat on Fridays or Saturdays and during Lent. In 1564 an act for the maintenance and increase of the navy provided that "Every Wednesday in every week" as well as Saturday shall be fish days "for the increase of fishermen and mariners, and repairing of port towns, and navigation." This was probably evaded, but it remained on the statute books until 1585. Later revived, we have the word of Lord Coke that it was not observed. Lord Cecil's observance has come down to us in a menu the first course of which consisted of ling, salmon or herrings, pike, plaice, or whiting, haddock or codfish or back meat while the second involved conger, or hamprey, or roe-fish, smelts, and tart.[13] The public's interest, in turn, asserted itself in the raising of money for the fishing fleets by national loans, joint-stock endeavors, lotteries, and even church collections.

A Ban on Foreign-Cured Fish. Native fisheries were to be aided, as well, through the prohibition on the importation of foreign-cured fish. A statute in 1598 stated:

[13] Cunningham, *op. cit.*, Vol. I, p. 72.

It was hoped and expected that the fishermen of this realm would in such sort have employed themselves to fishing, and to the building and preparing of such store of boats and shipping for that purpose, as that they should long ere this time have been able sufficiently to have victualled this realm with salted fish and herrings of their own taking, without any supply of aliens and strangers, to the great increase of mariners and maintenance of the navigation within this realm. Notwithstanding it is since found by experience that the navigation of this land is no whit bettered by means of that Act, nor any mariners increased nor like to be increased by it: but contrary wise, the natural subjects of this realm being not able to furnish the tenth part of the same with salted fish of their taking, the chief provision and victualling thereof with fish and herrings hath ever since the making of the same Statute been in the power and disposition of aliens and strangers, who thereby have much enriched themselves, greatly increased their navigation, and (taking advantage of the time) have extremely enhanced the prices of that victual to the great hurt and impoverishing of the native subjects of this realm, and yet do serve the markets here in very evil sort by little and little, housing and keeping their fish as well on this side as beyond the seas till the prices be raised to their liking. And the merchants of this realm having been wholly barred in their trades of providing of fish for the service thereof, the navigation of this realm which was intended to be augmented hath been rather impaired than increased thereby, and the prices of fish greatly enhanced to the great and general prejudice of the subjects.[14]

Aids to Navigation. A sort of government employment bureau for sailors, a hospital for old and disabled sailors, money for surveying and map making, voyages financed by the government; promises of huge prizes for the invention of chronometers to measure longitude, for the discovery of a northwest passage, for reaching within 1 degree of the North Pole, and so on, aided the growth of navigation.[15]

French Navigation Acts. Colbert and other mercantilist statesmen were following the same general course. In 1663, according to his reckoning, there were 20,000 ships engaged in commerce, of which 16,000 flew the Dutch flag and only 600 the French flag. France, therefore, had to build more ships and cut down Dutch leadership by capturing or destroying Dutch vessels. To this end, shipyards were built, special encouragement was given to the production of naval supplies, and liberal bounties were given for French ships. New docks and arsenals were built and old ones repaired. Harbors were improved. Men were encouraged to become sailors—both natives and foreigners. Schools were established for their training. Legislation similar to the British navigation laws was also passed. The colonists were to produce raw materials which were to be brought to France in French ships manned by French seamen, while finished goods

[14] Quoted in Lipson, *op. cit.*, Vol. III, pp. 119–20.
[15] Packard, *op. cit.*, p. 93 ff.

were to reach the colonists in the same way. Foreign vessels were subjected to heavy tonnage duties in order to discourage their use in French trade.[16]

The Success of the Navigation Acts. The most persistently advocated reform during the seventeenth and eighteenth centuries was the fiscal system intended to stimulate the carrying trade.[17] Nussbaum says, "Eighteenth century observers, English and non-English, agreed that the ascendancy which England was able to win on the sea over Holland and over France, was facilitated if it was not brought about by the navigation laws."[18] Josiah Child regarded them as belonging to "the choicest and most prudent Acts that ever was made in England, and without which we had not now been *Owners* of one half the *Shipping*, nor *Trade*, nor *Employed*, one half the *Sea-men* which we do at present."[19]

Child, like others, was not unaware of the criticism directed against the Navigation Laws; but he dismisses such criticism by emphasizing the necessity for competing with the Dutch "Masters of the Field in Trade" and stressing the vulnerable island character of England as well as the loss of the profits of colonial trade if the acts were repealed.

Professor Lipson concludes, after a very careful analysis of the facts, that the navigation acts are not to be credited with all of the benefits usually attributed to them. Prices rose considerably at times because of the carrying restrictions; re-export trade was hindered. The maritime strength of England was built up before the act had been in effect long enough to have achieved these results. "The subsequent recovery of English shipping supports the conclusion that the root causes of its prosperity, as of its occasional relapses, were independent of legislation and must be sought for in general conditions affecting trade."[20]

The navigation acts, however, cannot be regarded as having had no tangible results. The English merchant marine doubled in size between 1660 and 1688. Jennings points out, moreover, that the embarrassment of the Dutch, which was the aim of both French and English mercantilism, was also accomplished in some measure: "The immediate effect of the act was war with Holland, 1652–1653, for the law struck a deliberate blow at Dutch commerce. The English were at first defeated, but in 1653, off Portland, Blake defeated the Dutch admiral, Tromp. At least two other wars with Holland grew in part out of the English navigation policy, 1665–1667, and 1672–1673, and though occasional defeats came, England

[16] *Ibid.*, pp. 63–64.
[17] Lipson, *op. cit.*, Vol. III, p. 116.
[18] Nussbaum, Frederick L., *A History of the Economic Institutions of Modern Europe* (New York: F. S. Crofts & Co., 1933), p. 237.
[19] Child, Sir Josiah, *A New Discourse on Trade* (London, 1698), pp. 113–15.
[20] Lipson, *op. cit.*, Vol. III, p. 139.

eventually triumphed."[21] Heaton, on the other hand, questions "whether the Dutch felt any harmful effects" other than the loss of colonial commerce. They continued "to dominate the Baltic traffic and trade between the northern seas and the Mediterranean, while smuggling gave them considerable traffic across the Atlantic. They caught herrings almost within sound of the English coast guards, and the English fishermen could scarcely make a living."[22]

In the case of France, Packard concludes:

> Colbert created a merchant marine and a navy which could hold their own in numbers, personnel and ability with the sea power of England or Holland. The eighteen or twenty first-line men-of-war constituting the naval forces of Louis XIV in 1660 had increased, by Colbert's death in 1683, to 276 ships of improved design and power. These were manned by over 50,000 sailors, classified, well-trained and imbued with a good morale. If Colbert had attained no other achievement than this, he would have deserved well of France.[23]

SUMMARY

The mercantilists saw in a large population the source of a large army and navy as well as an abundant labor supply which would produce a surplus of goods for export. To foster this population, encouragement was given to early marriages and large families. Emigration was curtailed and immigration encouraged. Labor-saving devices were frowned upon. Nevertheless, the export of tools and specifications was forbidden in order to prevent other countries from deriving any advantages from them.

A large population made an adequate food supply the prime necessity. Corn laws were passed controlling the export and import trade in food. A sliding scale of duties based on price levels at any given time indicated when it would be profitable to import grain.

The mercantilists regarded a large mercantile marine as the nucleus of a fighting navy, the means of carrying goods without enriching foreign owners, and the maintenance of a colonial empire. Accordingly, shipbuilding was encouraged. An emphasis was placed on native ships in foreign and coastal trade and native-owned ships in colonial trade. Special consideration was given shipbuilders and producers of naval stores. Lighter custom duties were levied on goods when carried in native vessels. The fisheries likewise came in for special treatment since they were seen

---

[21] Jennings, W. W., *A History of Economic Progress in the United States* (New York: Thomas Y. Crowell Co., 1926), p. 96.

[22] Heaton, *op. cit.*, p. 395.

[23] Packard, *op. cit.*, p. 63.

as a training ground for seamen. Fish days were observed to insure a substantial market for their catch.

QUESTIONS FOR DISCUSSION

1. For what reasons did the mercantilists favor a large population? What were some of the policies designed to promote this end? The emigration of what types of individuals was looked upon with the greatest disfavor? Why?
2. What was the reasoning behind the mercantilists' emphasis on an abundant, cheap food supply? What were the Corn Laws? How do you reconcile the Corn Laws with the objective of maintaining a plentiful and inexpensive supply of food?
3. According to the mercantilistic philosophy, what advantages resulted from the formulation of a vigorous shipping policy and the promotion of an active merchant marine? How do you account for England's prominence in the development of this phase of mercantilism?
4. By what five general methods was domestic shipbuilding encouraged?
5. What were the British navigation acts? What was their purpose? Evaluate their effectiveness. Can England's pre-eminence as a great commercial power be attributed entirely or in part to the navigation acts? Explain.
6. What attempts were made to stimulate the training of sailors in England?

Chapter VI

MERCANTILISM: COLONIES AND COLONIAL COMMERCIAL POLICIES

VI. COLONIES

Colonies and the Mother-Country. The emphasis on colonies was not original with the mercantilists. The ancient Phoenicians and, later on, the Greeks emphasized the usefulness of colonies for commercial purposes, while Rome looked upon them as a source of revenue in the form of tribute and as a source of food supply. The treatment which the mother-country gave the colonies, moreover, was again reminiscent of that accorded the hinterland by the city-states.[1]

Colonies were, then, in the mercantilist sense the complement of the mother-country. They were to serve as a source of raw materials—treasure in the case of Spain; naval stores in the case of England; food, etc., in other instances. Then, too, colonies were to afford a market for the finished products of the mother-country. To this end the colonies were not to produce finished items of a competitive nature; or, if permitted to do so, as they were in some instances, they were to use them within the colony. All trade relations were monopolized by the mother-country against other powers and other colonies to benefit the shipping interests.[2]

The Control Exerted by the Mother-Country. The degree of control exerted over colonies differed with the mother-countries. Spanish colonies were strictly controlled toward the one goal of obtaining the maximum amount of precious metals. They were forbidden to produce many commodities which might compete with the homeland even though the latter was unable to produce a sufficient supply.[3] Professor Hamilton refers to the prohibition on the planting of grapevines and olive trees in Peru as typical of this legislation. In 1595, however, there was an admission that the ban on vines had failed. Philip II then legalized the clandestine planting and levied an excise tax of 2 per cent on the annual production.[4]

---

[1] Nussbaum, Frederick L., *A History of the Economic Institutions of Modern Europe* (New York: F. S. Crofts & Co., 1933), p. 73.

[2] *Ibid.*, pp. 73–74.

[3] Knight, M. M.; Barnes, H. E.; and Flügel, F., *Economic History of Europe* (Boston: Houghton Mifflin Co., 1926), p. 273.

[4] Hamilton, Earl, *American Treasure and the Price Revolution in Spain 1501–1650* (Cambridge, Mass.: Harvard University Press, 1934), pp. 299–300 n.

French Colonial Policy. Colbertism also demanded strict control of French colonies. The reasoning was typically mercantilistic. Colonies would afford good and exclusive markets for French goods and would yield necessary raw materials, which, incidentally, would increase the demand for French ships and French sailors. Colbertism, however, did not exploit the colonies to the same degree that Spanish policy did.[5]

British Colonial Policy. The British colonial policy is familiar to all students of American history. It constitutes an excellent example of mercantilism in action. This policy, perhaps, has not always been understood because of the general bias involved in any discussion of the Revolution. Yet, Alfred Marshall is the authority for the statement that "England was on the whole more generous to her colonies than was any other country."[6] We sometimes forget that the colonists themselves employed the mercantilistic devices of bounties, tariffs, prohibitions, etc., and that, much as the tax on tea (threepence per pound or about 6 cents) aroused the colonists, our first tariff (July 4, 1789) placed a tax on tea of from 6 to 20 cents per pound.

Benefits Enjoyed by the Colonists. Marshall admits the various restrictions on colonies but points out that "in partial recompense for almost every hardship inflicted on the colony, there was some sort of set-off in the shape of a special privilege granted to the colony in its trade with the mother country."[7] Lipson makes clear the fact that, although British regulations were often selfish and even ungenerous and nearly always unwise and inexpedient, nevertheless the colonies probably received more than they were asked to concede.

What benefit, it may be asked, did the colonies receive from mercantilism besides those arising from the Navigation Acts? Lipson emphasizes the facts that for two centuries, the mother-country furnished the population, found capital for their development, insured a protected market for their produce, safeguarded their trade routes, and defended the colonies from hostile attack frequently at great expense to herself. England forbade her own people from growing tobacco and virtually banned the importation of any except the American product. She granted preferential rates to the colonies and at times allowed free trade. In 1705, for example, a bounty of £4 per ton was paid on pitch and tar made in the colonies. The hemp bounty was fixed at £6 per ton while that on masts, yards, and bowsprits was £1 per ton. These remained in force, subject to some minor changes, for half a century. Other commodities enjoying bounties

[5] Packard, Laurence B., *The Commercial Revolution* (New York: Henry Holt & Co., 1927), pp. 64-65.

[6] Marshall, Alfred, *Industry and Trade* (London: Macmillan & Co., Ltd., 1927), Appen. D, p. 733.

[7] *Ibid.*, p. 732.

included flax, indigo, and coopers' wares. Professor Bogart mentions an estimate that the bounties paid by England to the colonists amounted to £1,500,000.[8]

The Enumerated Articles. Preferential duties and some free trade existed in cases of pig and bar iron, tobacco, raw silk, pot and pearl ashes, lumber, whale fins, train oil, and so on. But, at the same time, restrictions were placed on the free export of the so-called "enumerated articles." Articles on this list were to be sent to England and nowhere else. Once having entered England and a duty on them having been paid, they could be re-exported to the Continent. Enumerated items were of two kinds: those which were the peculiar produce of the colonies and were not produced in England at all and those produced in the mother-country but in amounts insufficient and necessitating importation from foreign countries.[9] The fullest importation of the first kind would not harm any English undertaking, but, by making England the sole market, it was thought that English merchants would benefit from the lower prices and then would gain greater profits by reselling to European customers. The English shipping industry, too, stood to gain by the larger carrying trade that would result. A properly adjusted tariff would prevent colonial goods of the second type from interfering with similar English goods but would place them in a more favored category than foreign goods of a competitive nature. We see here the beginning of a sort of British preferential tariff system whereby colonial produce would be somewhat more expensive than English goods but less expensive than foreign.

In 1660, sugar, tobacco, raw cotton, ginger, indigo, and fustic and other dye woods were enumerated. In 1706, molasses, rice, and naval stores were added. Later on, copper ore and beaver and other skins were included. In 1764, the list was enlarged considerably by the addition of coffee, pimento, cocoanuts, whale fins, raw silk, hides, pot and pearl ashes, iron, and lumber. But all nonenumerated items were not subject to restrictions and could be sent anywhere until the year 1766.

The Enforcement of the Laws. From time to time restrictions changed, sometimes in content and sometimes in the degree of enforcement. It is always important to keep in mind, when speaking of mercantilism, that what appeared on paper in the form of a law or decree was not always the same thing that was enforced. Lipson says that "this lax

---

[8] Bogart, Ernest Ludlow, *Economic History of the American People* (New York: Longmans, Green & Co., 1936), p. 74.

[9] In Malachy Postlewayt's *Britain's Commercial Interest*, appearing in 1757, the positive statement is made: "It is a law founded on the very nature of colonies that they ought to have no culture or arts, wherein to rival the arts and culture of their parent country. For which reasons a colony, incapable of producing any other commodities than those produced by its mother country, would be more dangerous than useful; it would be proper to call home its inhabitants and give it up."

administration of the system helped to bring authority and prestige of the mother country into disrepute; and habitual disregard for the laws of the parent state fostered a spirit of independence, which made any attempt at enforcement of the laws appear a gross act of tyranny."[10]

On the other hand, the "disregard" for colonial laws by England must also have contributed to the attitude toward the mother-country. For example, when the colony of Carolina passed a law laying a duty of 10 per cent on all goods of English manufacture imported into that colony, the Privy Council in 1718 disallowed the act and suggested to the king that directions be sent to the governor of that colony "never to Give His Consent to any Law of the like Nature, for the future." Another act, rather amazing in its content and therefore also disallowed by the Council, was that of Massachusetts which ignored the provision of the English Trade Act of 1663 that European goods could be imported only from Great Britain. The Massachusetts act not only allowed importation from other countries and placed a double duty on the commodities when coming from England but also imposed a tonnage duty on English ships.[11]

Up to 1764, just twelve years before the Declaration of Independence and Adam Smith's attack on mercantilism, the colonists, though faced with seemingly unfavorable mercantilistic legislation, were in reality enjoying a period which historians have called the period of "salutary neglect." Except for about nineteen years (1696–1715) when there was a "comparatively strict execution of the laws," they were either not enforced or allowed to be evaded. Even in 1700, "one-third of the trade at Boston and New York" was said to be in violation of the law. But it must be remarked in this connection that the same high degree of evasion was being practiced in England. Thus, it cannot be regarded as peculiarly a colonial problem.

The Molasses Act. The Molasses Act of 1733, called by Faulkner "the greatest economic mistake made by England during the colonial period" and described by Bogart as "utterly indefensible," remained a "dead letter" for three decades.[12] It provided for duties virtually prohibitory on sugar and molasses imported into the colonies from the Spanish, Dutch, and French West Indies. But it is significant that the group intended to benefit were also colonists—the British West Indian planters.

Other Unpopular Acts. Besides the Molasses Act, the most unpopular legislation up to 1764 dealt with three industries which were springing

---

[10] Lipson, E., *Economic History of England* (London: A. and C. Black, Ltd., 1931), Vol. III, p. 195 and chap. iv, *passim.*

[11] Printed in Bogart, Ernest Ludlow, and Thompson, Charles Manfred, *Readings in the Economic History of the United States* (New York: Longmans, Green & Co., 1925), p. 140.

[12] Faulkner, Harold U., *American Economic History* (New York: Harper & Bros., 1935), p. 151; Bogart, *op. cit.*, p. 169.

up in the American colonies—wool and woolen yarn and cloth, hat making, and finished iron and steel. The law of 1699 forbade the exportation of the first "to any other of the said plantations, or to any other place whatsoever." In 1732 the exportation of hats was similarly forbidden and the local output limited by restrictions placed on apprentices. In the case of bar and pig iron, its export to the port of London was encouraged by the act of 1750 which permitted its entry free of duty, while iron from other sources was heavily taxed. Although after 1757 American iron was allowed at any English port, the colonists were forbidden to build slitting or rolling mills, plating forges, tilt hammers, or steel furnaces. Cast iron products alone could be made.

Colonial Discontent. Benjamin Franklin, discussing causes of discontent prior to 1768, throws light on the colonists' attitude:

> But not only the interest of a particular body of merchants, but the interests of any small body of British tradesmen or artificers, has been found, they say, to outweigh that of all the King's subjects in the colonies. There cannot be a stronger natural right than that of a man's making the best profit he can of the natural produce of his lands, provided he does not thereby hurt the state in general. Iron is to be found everywhere in America, and the beaver furs are the natural produce of that country. Hats, and nails, and steel are wanted there as well as here. It is of no importance to the common welfare of the empire, whether a subject of the King's obtains his living by making hats on this side or that side of the water. Yet the hatters of England have prevailed to obtain an act in their own favor, restraining that manufacture in America; in order to oblige the Americans to send their beaver to England to be manufactured, and purchase back the hats, loaded with the charges of a double transportation. In the same manner have a few nail-makers, and a still smaller body of steel-makers (perhaps there are not half a dozen of these in England), prevailed totally to forbid by an act of Parliament the erection of slitting mills, or steel furnaces, in America; that the Americans may be obliged to take all their nails for their buildings, and steel for their tools, from these artificers, under the same disadvantages.[13]

Colonial Exports and Imports. Table 1 serves to give a statistical interpretation to the British-American commercial relationship. For the decade 1700–1710, the average annual value of American colonial exports was almost equal to the imports while for the next three decades ending in 1740 the colonial exports exceeded the imports. After this date, the excess of imports was very large. For the entire period of eighty years, the colonists purchased approximately £2,101,000 more than they sold to England. Much of the importation from England, however, consisted

[13] Jennings, Walter W., *A History of Economic Progress in the United States* (New York: Thomas Y. Crowell Co., 1926), p. 92. Quoted from Franklin's *Works*, Sparks ed., Vol. IV, pp. 250–51.

of finished products made from colonial raw material exports on which the colonists had already received their profit. Then, too, a large proportion of the bounties paid to the colonists were paid on some of the exports. The monetary record shows, accordingly, that mercantilism did not bear as heavily on the colonists in fact as it did on the pages of the law books.

TABLE 1

ANNUAL AVERAGE VALUE OF COMMERCE BETWEEN ENGLAND AND HER NORTH AMERICAN COLONIES*

Period	Colonial Exports £	Colonial Imports £
1700–1710	265,783	267,205
1710–20	392,653	365,645
1720–30	518,830	471,342
1730–40	670,128	660,136
1740–50	708,943	812,647
1750–60	802,691	1,577,419
1760–70	1,044,591	1,763,409
1770–80	743,560	1,331,206

* Bogart and Thompson, *Readings in the Economic History of the United States* (New York Longmans, Green & Co., 1925), quoting *Observations on the Commerce of the American States* by Lord John Sheffield (London, 1784), Appen. 24. The shillings and pence in the table have been omitted here.

Extent of Colonial Manufactures in 1732. In pursuance of the principle that the colonists should devote themselves to the production of raw materials for English use rather than to manufacture for the home market or exportation, the English Board of Trade and Plantations sent periodic inquiries to the colonial governors regarding colonial trade. That of 1732 is of interest because of the critical controversy with the sugar colonies since the report sought to determine the existence of "any laws made, manufactures set up, or trade carried on there, detrimental to the trade, navigation, or manufactures of Great Britain."

The commissioners reported that "in New England, New York, Connecticut, Rhode Island, Pennsylvania, and in the county of Somerset in Maryland, they had fallen into the manufacture of woollen cloth and linen cloth, for the use of their own families only." The commissioners explained this situation as resulting from the presence of some sheep on the colonists' farms as incidental to farming and that such wool as was clipped would be wasted if it were not converted into this cloth, which could be done during the long winters. The making of cloth bags, traces, and halters, similarly, was the result of a supply of raw material. Since, however, wages were said to be very high, there was no immediate danger of underselling the products of the mother-country. "But," continued the commissioners, "it were to be wished, that some expedient might be fallen

upon to divert their thoughts from undertakings of this nature: so much the rather, because those manufactures, in process of time, may be carried on in a greater degree, unless an early stop be put to their progress, by employing them in naval stores."

The answer regarding New Hampshire was much more satisfactory from a mercantilistic viewpoint. There the governor reported that "there were no settled manufactures in that province, and that their trade principally consisted in lumber and fish." New York, likewise, "had no manufactures in that province that deserved mentioning; their trade consisting chiefly in furs, whale-bone, oil, pitch, tar, and provisions." New Jersey reported the presence of "no manufactures here that deserve mentioning; their trade being chiefly in provisions exported to New York and Pennsylvania." Pennsylvania, in turn, declared that its "chief trade lay in the exportation of provisions and lumber; having no manufactures established; their cloathing and utensils for their horses being all imported from Great Britain."

The report for Massachusetts indicated the existence of some hatters, some leather-workers, some iron works, in addition to the cloth-making. But none of the cloth was exported and the "greatest part of both woollen and linen cloathing worn in this province was imported from Great Britain, and sometimes from Ireland." The iron was said to be inferior to that imported from England and constituted but a small part of that used. A later note, however, mentions some colonial advance in the making of paper, nails, and a type of cloth competing with calico, as well as the linen manufacture which "daily increased by the great resort of people from Ireland thither, who are well skilled in that business."[14]

The Principal Colonial Exports. The success of the mercantile principle that colonies should serve as raw material sources or sources of partially finished materials appears evident when reference is made to the principal colonial products. The fishing industry supplied codfish and cod oil; whales, whale oil, and whalebone; and pickled mackerel, shad, and other fish. Agriculture, including dairying and the raising of livestock produced for export, wheat and flour, beans, peas, oats, Indian corn, tobacco, rice, flaxseed, beeswax, butter, cheese, salt, pickled beef and pork, tongues, salted hams, bacon, and venison, horses, and livestock. The forests yielded fur-bearing animals, deerskin and other skins, naval stores such as turpentine, tar, and pitch, as well as potash, timber, masts, boards, staves, and shingles. The minerals available for export included copper ore and iron in the form of bars and pigs.

The Principal Colonial Imports. Manufactured products from England constituted the bulk of colonial imports. They included woolen, linen, silk, and cotton textiles; wool cards and wire; wrought leather goods

[14] Bogart and Thompson, *op. cit.*, pp. 60–65.

and saddles; cordage; gunpowder; wares of pewter, tin, copper, and brass; all sorts of iron products; paper, glass, painter's colors; as well as products raised or prepared outside of England but imported through English merchants. These included tea, wine, indigo, pimento, salt, sugar, molasses, and syrup.

Colonial Vessels. There was one sort of colonial manufacture which loomed large on the mercantilist's horizon, namely, ships. The Navigation Act of 1651 had provided that all colonial exports to England be carried in ships owned and operated by Englishmen. But, since the colonists were considered Englishmen for the purposes of this law, Parliament ignored the various proposals brought before it which sought to limit or even hinder colonial shipbuilding. A petition dated October 19, 1724, for example, framed by sixteen master builders of London pointed out that New England was attracting the journeymen of the shipbuilding art away from old England and prophesied disaster for the royal navy in time of need because of the scarcity of English vessels.[15] New England became famous as a shipbuilding center, this industry being surpassed in importance only by agriculture. According to Bogart:

> By 1775 it was estimated that one-third of the ships engaged in British trade were colonial-built. Certain branches of this trade were almost monopolized by New England vessels, for the shipping interests of England did not care to make a practice of carrying cargoes to places from which no return cargo was available. Consequently, a large part of the carrying trade between England and the northern colonies (whose chief products were excluded from the mother country), between the colonies and southern Europe, the intercolonial trade, and other minor trade routes, were relinquished to New England vessels.[16]

COLONIAL COMMERCIAL POLICIES

The Similarity between Colonial and English Viewpoints. The freedom-loving character of the American colonists in the years 1775 and 1776 has been so dramatized that many historical facts relating to the colonial period have been obscured. It is not in the province of this volume to offer an analysis of the situation in this period of history except to point out that the love of freedom to the extreme of revolution was not a majority reaction. The colonists did not differ in outlook from the people of the mother-country, and one is almost tempted to see in the list of grievances, not opposition in thought, but an irritation because of likeness in thought. What the mother-country was attempting to do was rather like what the colonists were attempting. Just as mercantilist policy was a cause of war between the European powers, each seeking similar goals,

[15] *Ibid.*, p. 57.

[16] Bogart, *op. cit.*, p. 166.

so the American Revolution had in it elements of a war between two groups with a similar and therefore conflicting program. The analogy must not be carried too far, of course. Yet this much is certain: It is impossible to interpret the American tariff system together with other commercial policies unless a true understanding is had of the colonial period and the period of the Confederation. The colonists, too, had to learn the lesson of laissez faire in their relations with each other just as truly as did the European countries. They were faced with a double set of restrictions —those imposed by England and those imposed by themselves.

Commercial Policies of American Colonies. Professor William Hill deserves a great deal of credit for his study of *Commercial Policies of American Colonies, 1600–1775,* which he published in 1893.[17] This work, which unfortunately, is not known well enough, shows that the colonists, aside from their relations with England, had erected against each other prohibitions, export and import taxes, and retaliatory devices. They emphasized place of origin, and they had miniature navigation acts. That many of the acts were short-lived does not obscure the fact that the colonists were thinking along these lines, although Professor Hill states, "There is no direct evidence that they influenced our later tariff legislation"—a conclusion that may be open to question.

Discouragement of Imports. Let us consider briefly some of the facts which we find in Professor Hill's study. A tariff passed in Massachusetts (and abolished in 1638) imposed an ad valorem tax of 16⅔ per cent on imported fruit, spices, sugar, wine, strong water, and tobacco. The purpose of the act was to discourage importation and keep down colonial expenditures. A similar act, passed in Virginia in 1663 and sumptuary in character, provided that all vessels bringing rum or sugar were to unload at special ports and pay a tax of *6d.* per gallon on rum and *1d.* per pound on sugar—such tax to be inoperative if the vessel was owned wholly by Virginians.

Protective Legislation. Although protective acts were not numerous, those that were passed showed that "there was no hesitation in granting protection to any industry, or in any way which promised to prove beneficial. There were almost no manufactures to protect, and therefore the duties laid on manufactured goods were for revenue only; but each colony encouraged its own agriculture, sometimes by prohibiting the importation of commodities from other colonies and sometimes by duties."

Intercolonial Restrictions. In 1652, Massachusetts in order "to uphold her own staple commodities" prohibited the importation of malt, wheat, barley, biscuit, beef, meal, and flour. Virginia forbade the impor-

[17] *Publications of the American Economic Association,* Vol. III, No. 6 (November, 1893). Most of the account of colonial tariffs in the following pages is based on this work.

tation of tobacco, especially that of North Carolina. A liquor duty of 3*d.* per gallon was imposed by Maryland, but the Pennsylvania-made product was assessed three times that amount. Pennsylvania, in turn, permitted no Maryland tobacco to enter the colony.

The Tax on Slave Importation. One unique application of the tariff was the tax imposed upon the importation of slaves and used by Virginia, Maryland, South Carolina, Massachusetts, New York, and Pennsylvania—sometimes a flat rate or specific duty varying from £1 to £10 per slave and sometimes an ad valorem rate averaging 20 per cent.

Colonial Navigation Acts. Maryland compelled vessels from Virginia to enter and pay fees before being allowed to trade in Maryland ports. Virginia's reaction was to treat Maryland's vessels in the same way. The northern colonies, however, had reciprocal agreements regarding their ships, permitting free entry into each others' ports. Goods not imported directly from their place of growth or origin were subjected to double duties by Massachusetts and New York. Export duties were imposed on furs, skins, wool, iron, leather, Indian slaves, lumber, slaves, shingles, tar, tobacco, and such provisions as fish, beef, pork, bacon, flour, and wheat.[18]

Colonial Tariffs. South Carolina had the largest number of articles on her tariff, which dated as a formal instrument from 1703. In 1721, more than fifty articles were subjected to taxation. Massachusetts' more systematic tariff was based on an annual enactment from 1692, although a tariff was employed from 1645. The tariff was a revenue tariff. That on tea was 1*s.* per pound in 1756, 4*d.* in 1762, after which the commodity was placed on the free list. All English goods were admitted free after 1719.

Generalizations on Colonial Tariffs. Professor Dewey offers the following generalizations on colonial tariffs: Specific duties were the exceptions, although in course of time they came into more general use because they more definitely lent themselves less to fraudulent evasion. Ad valorem rates were low, varying from 1 per cent to 5 per cent. The laws were enacted for short periods and usually specified the purpose to which the revenue would be applied. The revenue was small, while the system itself was grossly evaded—possibly because of the attitude toward England's navigation laws.[19]

Laissez Faire in the Realm of Trade. The experience of our country after 1776 under the Articles of Confederation constitutes the best illustration of the earnest attempt to apply laissez faire in the realm of trade. "It is safe to say that with few exceptions—perhaps only one of importance (Hamilton)—the leaders in our Revolutionary struggle favored unrestricted commerce."[20] John Adams was thoroughly in sympathy with the

[18] Dewey, Davis R., *Financial History of the United States* (New York: Longmans, Green & Co., 1934), p. 16.

[19] *Ibid.*, p. 17.

[20] Hill, *op. cit.*, p. 75.

physiocrats and Adam Smith. Benjamin Franklin was even more extreme in his free trade tendencies, having published with George Whatley in 1775 a pamphlet, "Freedom of Trade," which contained many of the maxims found the following year in the *Wealth of Nations*. Jefferson and Madison were also believers in free trade but regarded it as a distant goal, certainly unattainable so long as other countries were protectionist. George Washington said little about free trade, viewing it as virtually unattainable even though possibly desirable. On the other hand, with Hamilton, he favored the encouragement of trade. Later events were to swing Adams into this same camp. In fact, Franklin, alone, may be said to have adhered to the free trade principle to the end of his life.

The Articles of Confederation. The Articles of Confederation in 1781 left the national government without real authority in the field of the tariff. They provided "that no treaty of commerce shall be made whereby the legislative power of the respective states shall be constrained from imposing such imposts and duties on foreigners as their own people are subjected to, or from prohibiting the exportation and importation of any species of goods or commodities whatsoever." Since unanimous consent was needed for any change in the Articles, subsequent attempts to build a national tariff failed. This situation obtained until 1789.

State Tariffs under the Articles of Confederation. Even the states virtually adopted free trade and showed very definitely some influence of laissez faire. In Massachusetts, there was no mention of imposts from 1774 to 1781. South Carolina gave up her system, which had remained unchanged since 1703, and had no system from 1776 to 1783. Pennsylvania, which had not pressed her tariff system before the Revolution, did not appoint a tariff collector for a few years after that event. New York collected no duties from 1775 to 1784. Neither Maryland nor Connecticut enforced the tariff from 1776 to 1780, while those states which had not previously imposed duties refrained from imposing any after the Revolution. New Jersey even went to the extreme of passing a free trade law.

Just how far the acceptance of the philosophy of laissez faire is to be credited with this period of free trade and how much the lack of trade was responsible is difficult to say. True enough, the colonies were free, but with this freedom there was also lost to them their chief market for exports and imports. With trade with England prohibited, as it was under severe penalties, free trade could well be a gesture without consequences. Nevertheless, when the need for revenue revived the tariff movement, the states responded reluctantly. Those in the South adhered strictly to revenue while those in the North combined revenue and protective features.

The Purposes of Early Laws. The titles and preambles of the laws of some of the states show the spirit of these laws. In Connecticut, the preamble read, "That all due encouragement should be given to manufac-

tures in this state"; that of New Hampshire, "That the laying duties on articles, the produce or manufacture of foreign countries, will not only produce a considerable revenue to the state, but will tend to encourage the manufacture of many articles within the same"; that of Rhode Island, "an Act for laying additional duties on certain enumerated articles for encouraging the manufacture of them within this State, and the United States of America"; that of Massachusetts, "Whereas, it is highly necessary for the welfare and happiness of all states, and more especially such as are republican, to encourage agriculture, the improvement of raw materials, and manufactures, a spirit of industry, frugality and economy, and at the same time to discourage luxury and extravagance of every kind."

The Pennsylvania Tariff of 1785. Hill points out that a comparison of the Pennsylvania Tariff Act of September 20, 1785, with that of the first tariff of the United States in 1789, "will at once suggest the origin of the latter measure."[21] The preamble reads:

> An act to encourage and protect the manufacturers of this state, by laying additional duties on certain manufactures which interfere with them.
>
> Whereas; divers useful and beneficial arts and manufactures have been gradually introduced into Pennsylvania, and the same have at length risen to a very considerable extent and perfection, insomuch that in the late war between the United States of America, and Great Britain, when the importation of European goods was much interrupted, and often very difficult and uncertain, the artizans and mechanics of this state were able to supply in the hours of need, not only large quantities of weapons and other implements, but also ammunition and clothing, without which the war could not have been carried on, whereby their oppressed country was greatly assisted and relieved.
>
> And whereas, although the fabrics and manufactures of Europe, and other foreign parts, imported into this country in times of peace, may be afforded at cheaper rates than they can be made here, yet good policy and a regard to the well-being of divers useful and industrious citizens, who are employed in the making of like goods, in this state, demand of us that moderate duties be laid on certain fabrics and manufactures imported, which do most interfere with, and which (if no relief be given) will undermine and destroy the useful manufacture of the like kind in this country, for this purpose. . . .

Other Encouragements by State Governments. Other encouragements besides the tariffs were tried. Connecticut exempted from tax land devoted to the growth of hemp, buildings used as woolen factories, and iron works. Their workmen were also exempted from paying a poll tax. New Hampshire paid premiums and granted tax exemption on the manufacture of linseed oil, erection of slitting mills, nail works, making of duck and sailcloth; factories were exempted from taxation for a decade, and workmen from poll taxes. Raw materials were admitted duty free. Rhode

[21] *Ibid.*, p. 54. This tariff is printed as Appen. A.

Island paid bounties on sheep, hemp, and flax, and New York State paid bounties on hemp.

Balance of Trade. In some instances, some concern was shown for the state of trade balance and for the export of money to foreign countries. This underlay the legislation in New Hampshire and Massachusetts. Hill says:

> This adverse balance of trade, and the great exportation of coin in 1783 and 1784, caused as much uneasiness as did either the British restrictions on American commerce, or the competition which the new manufacturers felt.
>
> Although new ideas in regard to commerce and the functions of money had found lodgment in some minds, and an occasional writer set forth the modern theory, the discussion was based, almost without an exception, on the assumption that coin was the most important part of a country's wealth, and that every possible precaution should be taken to prevent its exportation. The danger of losing the coin which America held in 1783 was great. Most of this had been sent from France and England to supply the armies here and its return was inevitable as soon as peace permitted economic conditions again to regulate the distribution of the precious metals.[22]

SUMMARY

Colonies were regarded as the complement of the mother-country. They were to serve as suppliers of raw materials to the mother-country and purchasers of the finished products of the mother-country. The degree of control exerted over them differed. The vigor with which colonial laws were enforced likewise varied depending on conditions. The experiences of the thirteen colonies with England is a fine example of mercantilistic colonial principles at work. Periodic reports were demanded on the state of manufactures in the colonies to make sure that British exports of manufactured goods would not suffer colonial competition and that supplies of colonial raw materials for Britain would not be curtailed. It is quite possible to interpret the friction which existed as something besides animosity between the colonists and the mother-country, namely, the fact that both were attempting to use mercantilistic teachings simultaneously.

Under the Articles of Confederation, the government did not succeed in building up a national tariff policy. Each state had control over its own tariff, although the trend toward free trade was noticeable. The tariff of 1785 in Pennsylvania virtually became the model for the first United States tariff, which became a law in 1789.

QUESTIONS FOR DISCUSSION

1. What role was assigned to colonies by the mercantilists? How did the British, Spanish, and French colonial policies differ in this respect?

[22] *Ibid.*, pp. 59–60.

2. In what respects did the colonies benefit from the mercantilistic policies of the mother-country? Answer with specific reference to England and her colonies.
3. What was the "enumerated list"? What types of commodities did it include? What was its purpose?
4. Discuss and interpret the balance of trade between England and the American colonies in the eighteenth century. What were the principal imports and exports of the American colonies?
5. To what extent did colonial manufactures compete with British industry?
6. Do you think it correct to say that the American Revolution was fought because of the colonists' objections in principle to British trade policy? Explain.
7. Summarize the characteristic features of the trade policies of the American colonies.
8. What is meant by laissez faire? What is its application to trade policies? What was the attitude of the governing classes of the colonies to this doctrine? Cite examples.
9. Discuss and interpret the situation with respect to tariffs under the Articles of Confederation.

Chapter VII

CRITICISMS OF MERCANTILISM BEFORE THE TIME OF ADAM SMITH

Agreement and Disagreement among Mercantilist Writers. In considering the criticisms levied against mercantilism, it is well to recall that the writers of the period did not use the term itself and that they were not consciously members of a "school." Furthermore, they were much less theorists than they were interpreters, describers, and at times, not disinterested defenders of the conditions as they found them. It follows, then, that it is more surprising to find agreement among them than disagreement and inconsistency. Yet, it is the latter that has called forth more comment and more wonder than the former. If Adam Smith is to be accused of generalizing their views, later writers, in turn, might be charged similarly with seeking too much harmony in them. To say that a particular mercantilistic writer was in advance of his contemporaries is not quite as accurate as to say that, except for goals, the mercantilists showed little accord. In fact, it is not easy to find general agreement even as to the means whereby the goals were to be attained. Indeed, we are almost of the belief that some of the agreement among leading mercantilists consisted of their nonmercantilistic tenets.

We have already seen that at one extreme one group, called "bullionists," laid special emphasis on treasure; that some thought in terms of balance of bargain; and that others looked at the balance of trade. In the same way, we may point to numerous instances when general mercantilistic tenets were questioned by well-known mercantilists.[1]

Views on Restrictions of Exports and Imports. In their attitude toward restrictions on exports and imports, there is, again, some agreement and some disagreement. Underlying the thinking of some was the belief that all trade is interrelated. In the words of Sir Dudley North, "The whole world as to trade is but as one nation or people, and therein nations are as persons." It follows that the loss of trade with one nation is "so much of the trade of the world rescinded and lost."[2]

[1] Professor John Ferguson classes Davenant as a mercantilist, together with Fortrey, Mun, and Coke; but says of Child, North, Barbon, and others, though "sometimes classed as mercantilists, they appear on the contrary to have been more anti- than pro-mercantilistic in their views." *Landmarks of Economic Thought* (New York: Longmans, Green & Co., 1938), p. 37.

[2] *Discourses upon Trade* (1691), found in Jacob Hollander, *A Reprint of Economic Tracts* (Baltimore: John Hopkins University Press, 1905), Preface, p. viii.

Davenant held that all branches of commerce are interdependent; that, although one branch may seem prejudicial, nevertheless "to lop it off may kill another, which by secret fibres has relation to it"; and that tariffs not only break links in the chains of commerce but generally end in war.[3] Barbon, who attempts to analyze trade conditions in somewhat more detail than some of the other writers, taught that "for any Nation to make a Law to Prohibit all Foreign Goods, but only such as are advantageous; Is to put other Nations upon making the same laws; and the Consequence will be to Ruine all Foreign *Trade*. For the Foundations of all Foreign *Trade*, is, from the Exchange of the Native Commodities of each Country, for one another." In a like manner, Mun raised the question, "If we . . . . use few or no foreign wares, how shall we then vent our own commodities?"[4]

A Laissez Faire Attitude. Another concept, more like laissez faire than mercantilism, was that trade should be as free from direction as possible. Davenant maintained that: "No imagination can be vainer than to think that trade is to be ruled and circumscribed by art; it must be suffered to take its own natural course, and not be interrupted by prohibitions or high duties equal to prohibitions, unless upon provocation from other countries." Those who seek to promote the consumption of their own products, "by an universal discouragement of foreign goods will find themselves, in the process of time, to have little or no trade, and that their own commodities shall remain a drug upon their hands." He charges that "England never throve by trade, but while she was an universal merchant."[5]

Sir Dudley North held a similar view: "There can be no trade unprofitable to the public "for if any prove so, men leave it off, and wherever the traders thrive, the public of which they are a part thrives." Public regulation was to be opposed on the ground that it seldom proves other than prejudicial: "Thus we may labor to hedge in the cuckoo but in vain, for no people ever yet grew rich by policies; but it is peace, industry, and freedom that brings trade and wealth, and nothing else."[6]

For Barbon,

> The Prohibition of *Trade* is the Cause of its Decay; for all Foreign Wares are brought in by Exchange of the Native; so that the Prohibiting of any Native Commodity, doth hinder the Making and Exportation of so much of the Native as used to be Made and Exchanged for it. The Artificers and Merchants, that Dealt in such Goods, lose their Trades; and the Profit that was

[3] Davenant, Charles, *Works* (1771), Vol. V, p. 387.
[4] Mun, Thomas, *England's Treasure by Forraign Trade* (1664), found in Ashley, ed., *Economics Classics* (Cambridge, Mass.: Harvard University Press, 1895), p. 148.
[5] Davenant, *op. cit.*, Vol. I, pp. 387–89.
[6] North, *op. cit.*, Preface, p. viii.

gained by such Trades, and laid out among other Traders, is Lost. The Native Stock for want of such Exportation, Falls in Value, and the Rent of Land must Fall with the Value of the Stock.[7]

Duties versus Restrictions. Barbon, then, does not believe in prohibiting the import of goods even if they should "hinder the making and consuming of the Native." Rather place

so great Duties upon them, that they may be always Dearer than those of our Country make: The Dearness will hinder the common Consumption of them, and preserve them for the use of the Gentry, who may Esteem them, because they are Dear; and perhaps, might not Consume more of the English Growth, were the other not Imported. By such Duties, the Revenue of the Crown, will be Increased; And no Exceptions can be taken by an Foreign Prince, or Government; Since it is in the Liberty of every Government, to Lay What Duty or Imposition they please.[8]

Thus, in one paragraph Barbon shows acquaintance with a high revenue tariff and suggests a way to accomplish a mercantilistic goal without arousing too much discontent on the part of other nations, thus recognizing the greatest evil of the system, the commercial and sometimes military warfare for which the policies were responsible. That others were also thinking about tariff protection, however, is indicated by an opinion expressed in 1701: "A manufacture that cannot be established or maintained with a duty of 12 per cent to 15 per cent should be regarded in the same light as a man who seeks to enrich himself at the public expense."

Views of Thomas Mun. Sir Thomas Mun (1571–1641), experienced foreign trader and active in the affairs and defense of the East India Company for many years, was the author of *England's Treasure by Forraign Trade*, which was published in 1664 posthumously by his son. According to Professor Johnson, "It was this book that writers on economics before Adam Smith praised and quoted more often than any other book;" and it "became a model upon which a subsequent and much greater book, Adam Smith's *Wealth of Nations*, was unconsciously patterned."[9] Mun, like many other writers in the field, compared the nation to an individual. A nation, like an individual, must sell more than it buys and import the difference in the form of treasure. While it must be willing to buy necessities, it should scrutinize the importation of luxuries. In this sense, the merchant was a sort of steward for the realm. But Mun argued that such treasure was best used in foreign trade since, if it became a part of domestic stock, prices would rise and the market would become less attractive

[7] Hollander, *op. cit.*, p. 35.
[8] *Ibid.*, pp. 37–38.
[9] Johnson, E. A. J., *Predecessors of Adam Smith* (New York: Prentice-Hall, Inc., 1937), pp. 74, 77.

to foreign buyers. Johnson's comment in this connection is interesting: "Mun is now very near to a quantity theory of money and to a Ricardian theory of specie distribution, but actually he reaches neither."[10] Mun also saw a possible danger in the imposition of taxes on exports because of the discouragement to trade, but he favored high duties on imports intended for consumption. Goods, however, intended for re-export were to be subjected to a low tariff.

Views of Roger Coke. Roger Coke, whose *Discourse on Trade* appeared in 1670, not only recognized the danger of retaliation and warfare which a policy of prohibition would awaken and the resultant falling off of a country's exports, but he feared what might happen in the domestic market were all foreign competition to be shut off. The people might have "to pay more for worse work than they did before." He also sounded a note which must have been unorthodox in his day in maintaining that sometimes a country might well make a choice as between two industries in so far as other countries were concerned. He argued that abundant Newcastle coals should be freely exported even though this would enable other countries to manufacture iron more cheaply. If "the vending our coals in foreign trade and making returns, besides the employment of our shipping and marines, be more beneficial to this nation than cheaper working iron manufactures be prejudicial to it, this exportation is to be preferred."[11]

Views of David Hume. David Hume (1711–66), Scottish historian and philosopher, observed that there "seems to be a kind of opposition betwixt the greatness of the state and the happiness of the subjects." But when a choice had to be made in the fulfillment of any law or policy, he chose the interest of the state. Again, he recognized that commerce was best in free countries and less flourishing under absolute governments. However, these views did not prevent him from advocating a great measure of government control. Accordingly, in writing of population, Hume advocated the encouragement of all institutions contributing to its growth and the removal of those which interfered. In the same spirit he believed in the encouragement of manufactures by the sovereign. He saw that "manufactures . . . . gradually shift their places, leaving those countries and provinces, which they have already enrich'd, and flying to others, whither they are allur'd by the cheapness of provisions and labour."[12]

Hume on Treasure and the Balance of Trade. The supply of the precious metals (money), too, was important from the sovereign's point of view. It was an engine which made for power. It made possible the hiring of mercenaries and the building of foreign alliances. But, when Hume

[10] *Ibid.*, p. 81.
[11] Coke, Roger, *Treatise* (1675), Vol. IV, pp. 74–75.
[12] Hume, David, *Economical Essays*, 1752.

considered the people's interest in the quantity of money within the state, he argued that "the greater or less plenty of money is of no consequence; since the prices of commodities are always proportion'd to the plenty of money." If, however, the increase in amount changes the habits of the people, then it would be of consequence. Hume may be credited, then, with a quantity theory of money—a theory which could not be accepted by a rabid mercantilist. Associated with this theory, moreover, was one which was to loom large in the teachings of the classical economists, that of international gold movements which regulated the distribution of gold among the various countries. This inspired something of a laissez faire attitude toward treasure. Hume, as a consequence, rejected the balance-of-trade doctrine as well as restrictive attempts to control the balance, but he advocated moderate protection both as a revenue producer and as a means of encouraging industries and thereby supporting a larger population.

Anticipation of Comparative Costs. Professor Lipson cites an argument of the period anticipating comparative costs and, therefore, likewise a negation of the accepted views. When "the people employed to make manufactures here" are more "than are necessary to procure the like from India," they are not employed to the kingdom's profit for, "if one man procures as much value by his labor from India as three produced before in England . . . . he possesses as much as all the three before. It were better, therefore, for the men employed in such manufactures to betake themselves to other industries, for which this country was more suited."[13]

Freedom of Importation. Even Samuel Fortrey, who gave excellent expression to the "buy-at-home" movement in 1663, taught that a nation should import freely "all foreign commodities that are usefull," and not raised at home. They were to "be brought to us under easie customs, the better to enable us at an easie exchange, to vent our commodities abroad." Again, "when any commodity is raised to the greatest height it is capable of, it should be free for exportation, under so reasonable customs, that the Merchant may afford his Commoditie abroad, as cheap as others, or else he would not be able to vent it." According to his reasoning, a nation such as England should allow the importation of such commodities as fruits, sugars, linen cloth, laces, silk, and make them pay "extraordinary customs." But it should permit the exportation "under reasonable customs" of "the increase of our land in any kinde (except sheep alive and mares) that have already all the perfection that we can add unto them."[14]

Views of Sir James Steuart. Sir James Steuart (1712–80), who has been called the "last of the mercantilists," was a contemporary of Adam

---

[13] Lipson, E. *Economic History of England* (London: A. and C. Black, Ltd., 1931), Vol. III, pp. 40–41.

[14] Hollander, *op. cit.*, pp. 26–28.

Smith.[15] Educated in the law and widely traveled, he was possessed of powers of observation similar to those of his famous fellow-Scotchman. Johnson calls him "the nearest approach to a political oeconomist that the era before the publication of the *Wealth of Nations* produced." He was a nationalist, had faith in the good sense of statesmen, and was a believer in the motivating force of self-interest of the individual but did not believe in leaving this force unguided. In his *An Inquiry into the Principles of Political Oeconomy*, a two-volume work appearing in 1767, he divided his subject into five books: "Population and Agriculture," "Trade and Industry," "Money and Coin," "Credit and Debts," and "Taxes."

Like the physiocrats, having lived in France, he believed in the surplus productivity of agriculture and favored bounties and other legislative encouragement to this end. But he also realized that abundant food would lead to an increase in population. His attitude toward population was not wholly mercantilistic. "I think it is absurd," he wrote, "to wish for new inhabitants, without first knowing how to employ the old." He favored labor-saving devices but looked to the statesmen to find employment for the displaced workers.[16]

He was not an advocate of free trade and he subscribed to the infant-industry argument. Although probably the first writer to use the term "favorable balance of trade,"[17] he did not have the mercantilist's fear of exporting gold and silver, nor did he picture any calamitous results from their importation since he did not hold to a quantity theory. Steuart also realized that such mercantilistic devices as navigation laws were of such a nature that, if employed by all countries at the same time, they would lead to the stagnation of trade.

THE CRITICISMS CONSIDERED AS REFLECTING THE DECLINE OF MERCANTILISM

Weaknesses of the System. The writers mentioned above and many others may be regarded as reflecting the trend of the times rather than laying down a new philosophy of economic statesmanship. Conditions around them were changing, and changing conditions brought more and more of the mercantilist weaknesses and inconsistencies to the fore. Professor Warner points out that the system had grown to a state of "appall-

[15] Johnson, *op. cit.*, p. 209, points out an interesting situation regarding Steuart and Smith. He shows that Smith whose work was published nine years later had apparently decided not to mention Steuart's work. Johnson remarks: "Smith's strategy was well calculated. By deliberately ignoring Steuart, he undoubtedly contributed to the rapid eclipse of his countryman's treatise, and, except for a single note of muffled criticism, no one of his contemporaries rose to defend the repatriated baronet." He also suggests that it was easier to attack the views of Mun than those of Steuart.

[16] Johnson, *op. cit.*, p. 9.

[17] Viner, Jacob, *Studies in the Theory of International Trade* (New York: Harper & Bros., 1937), p. 10.

ing complexity"; that innumerable duties hampered trade in all directions; that there was a division of opinion among the owners of industries themselves as to what policy to pursue; that there were sixty-eight branches of the customs under which some articles paid a number of different duties. He cites the instance of a pound of nutmeg which paid nine duties and other cases where fourteen duties were levied. The duties, moreover, brought in a ridiculously small revenue when the cost of collecting them was considered.[18]

Evasion. High duties and other restrictions led to a systematic smuggling, estimated by a parliamentary committee to involve some forty thousand persons, not to mention colonial activities of a similar nature. Farmers living near the English coasts were said to have built up a lucrative trade in hauling the smuggled goods. Bowden *et al.* remark:

> In 1745 the British authorities were so completely baffled by the smugglers that an amnesty was offered to all smugglers who appeared before a certain date and described their methods of procedure. But this merely checked operations for a short interlude, and illegal trade was soon in full swing once more. There were well-known offices in Paris and London at which parcels could be delivered for illegal entry. The charges had been reduced to about 10 per cent of the value of the goods. Tea was an even more lucrative commodity than tobacco or spirits for the English smugglers. In 1745 it was estimated that consumption mounted to 4,000,000 pounds, of which only 20 per cent paid duty. In 1787 it was presumed that only 40 per cent of the (13,000,000 pounds) tea consumed in Great Britain paid duty.[19]

The System Lacked Unity. Mercantilism was not a unified nor altogether consistent system—a fact that has already become apparent in this chapter and one that is not at all surprising when we stop to consider all that it sought to accomplish or the length of time over which it developed. As Lipson says, the product of one industry was the raw material of another, and the treatment accorded one frequently was injurious to the other. Legislation such as the navigation acts hampered industry and trade, and, in its one-sided emphasis on exports, it was not always favorable to the welfare of the country itself.[20] What appeared to be good policy when the immediate future alone was considered frequently remained to plague the public in the long run. Again, many of the long-run goals called for legislation oppressive to the people in the interim. Then, too, as we have already remarked, there was too wide a gap between mercantilism in law and in fact. Conceivably, if every part of the system which was incorpo-

[18] Warner, George Townsend, *Landmarks in English Industrial History* (London: Blackie and Son, Ltd. *cir.* 1898), p. 333.

[19] Bowden, Witt; Karpovich, Michael; and Usher, Abbott Payson, *An Economic History of Europe since 1750* (New York: American Book Co., 1937), pp. 321–22.

[20] Lipson, *op. cit.*, Vol. III, chap. iv, *passim.*

rated in statute law had been enforced, mercantilism as a whole would have worked even in spite of its economic faults, which were not very apparent until the heyday of mercantilism had passed. But with sporadic enforcement, economic necessity made for wholesale evasion of the law, thus making difficult any estimate as to how well mercantilism worked.

Evaluation of Mercantilism. In an evaluation of mercantilism Hecksher writes:

> The contempt of the mercantilists for religion and ethics, their desire to subject individuals to the state, their belief in a somewhat mechanical social causation without belief in a pre-established harmony, made them even more ruthless in their insistence upon setting aside all sorts of time honored customs and human needs and presented a strong contrast to the fundamentally humanitarian attitudes which followed. Moreover, in this respect as in most others, the ability of mercantilist statesmen to achieve what was required by their programs was very limited; and their attempts at directing economic life without violence remained mostly on paper. In practise they had recourse to all the time honored methods of coercion.[21]

Buckle's Criticism. Buckle's more detailed criticism, possibly too bitter and sweeping, is nevertheless worthy of note because it shows the all-inclusiveness of the system and the cloudlike manner in which it enveloped life at the time:

> In every quarter, and at every moment, the hand of the government was felt. Duties on importation, and duties on exportation; bounties to raise up a losing trade, and taxes to pull down a remunerative one; this branch of industry forbidden, and that branch of industry encouraged; one article of commerce must not be grown because it was grown in the colonies, another article might be grown and bought but not sold again, while a third article might be bought and sold but not leave the country. Then, too, we find laws to regulate wages; laws to regulate prices; laws to regulate profits; laws to regulate the interest of money; custom-house arrangements of the most vexatious kind, aided by a complicated scheme, which was well called the sliding scale—a scheme of such perverse ingenuity that the duties constantly varied on the same article, and no man could calculate beforehand what he would have to pay. To this uncertainty, itself the bane of all commerce, there was added a severity of exaction, felt by every class of consumers and producers. The tolls were so onerous as to double and often quadruple the cost of production. A system was organized, and strictly enforced, of interference with markets, interference with manufactories, interference with machinery, interference even with the shops. The towns were guarded by excisemen, and the ports swarmed with tide-waiters, whose sole business was to inspect nearly every process of domestic industry, peer into every package, and tax every article; while that

[21] Hecksher, Eli, "Mercantilism," *Encyclopaedia of the Social Sciences,* Vol. X, p. 339.

absurdity might be carried to its extreme height, a large part of all this was by way of protection: that is to say, the money was avowedly raised, and an inconvenience suffered, not for the use of the government, but for the benefit of the people; in other words, the industrious classes were robbed in order that industry might thrive.

But worse still remains behind. For the economical evils, great as they were, have been far surpassed by the moral evils which this system produced. The first inevitable consequence was that in every part of Europe there arose numerous and powerful gangs of armed smugglers, who lived by disobeying the laws which their ignorant rulers had imposed. These men, desperate from the fear of punishment, and accustomed to the commission of every crime, contaminated the surrounding population; introduced into peaceful villages vices formerly unknown; caused the ruin of entire families; spread, wherever they came, drunkenness, theft, and dissoluteness; and familiarized their associates with those coarse and swinish debaucheries which were the natural habits of so vagrant and lawless a life. The innumerable crimes arising from this are directly chargeable upon the European governments by whom they were provoked.[22]

Gradual Decline. It is an error to assume that mercantilism collapsed suddenly as a system. The decline was gradual, some parts showing weakness before others, some countries developing different emphases because of changing conditions sooner than others. To some extent, mercantilism was no longer needed because some of its goals were realized. For example, the decline of Holland fulfilled a major aim of both English and French mercantilism. The growth of the merchant marine made the navigation laws less important, although they persisted into the nineteenth century. The more conciliatory attitude adopted at times which led to the making of treaties laid the groundwork for better international commercial understanding. Finally, the revolt of the American colonies showed up the weakness and brought an end to a major part of the mercantilistic system.

Survival of the System. The above discussion, however, is not to be read as an obituary of a system that died; neither are the teachings of the physiocrats nor Adam Smith's *Wealth of Nations* to be considered the deathblows to the system. Later events were to show that mercantilism was never killed. Badly wounded, it survived and revived. We have surprisingly much of it with us today as subsequent chapters will reveal.

Eighteenth-Century Freedom. Less tangible, though just as potent as any of the reasons already given for the decline of mercantilism, was the fact that in the latter part of the eighteenth century freedom was in the air. Men breathed it. It won their fancy. It took the form of a revolution in thought. Certain mercantilists, the physiocrats in France, Adam Smith in England, the framers of the American Declaration of Independence and

[22] Buckle, H. T., *History of Civilization in England* (New York: D. Appleton and Co., 1906), Vol. I, pp. 201–3.

the Constitution, the leaders of the French Revolution, and others gave it form. The economic side of this movement toward freedom and away from the restrictions which Buckle recites has come to be known as the "reign of laissez faire" for, although it began earlier in England, it moved much more quickly in France.[23] *Laissez faire et laissez passer, le monde va de lui-meme* (Let do and let alone, the world goes on of itself).

Laissez Faire, Laissez Passer. With the years this concept has become broader and more inclusive. Accordingly, in order to understand just what its advocates sought in the eighteenth century, it is well to keep in mind Alfred Marshall's definition in terms of what it meant at that time. *Laissez faire* meant that "anyone should be allowed to make what things he likes and as he likes; that all trades should be open to everybody; that government should not, as the Colbertists insisted, prescribe to manufacturers the fashions of their cloth." *Laissez aller* (or *passer*) meant that "persons and goods should be allowed to travel freely from one place to another, and especially from one district of France to another, and especially without being subject to tolls and taxes and vexatious regulations."[24]

The Physiocrats' Formula for a Great Nation. We can better realize the approach of the laissez faire adherents by recalling the mercantilist formula of a rich nation and by comparing it with the physiocratic formula attributed to Vauban (writing in 1707). The mercantilists started with a great nation personified by a great king and then sought to obtain the things necessary to make a king great—a large treasure, a large population, a strong navy, and rich colonies. Vauban, however, starts with the people and works toward the king. "Poor peasants, poor kingdom; poor kingdom, poor king" was a motto later to become that of the physiocrats. In the hands of Boisguillebert, a contemporary of Colbert, Cantillon, and Adam Smith, this concept becomes a positive one—foster an economic system that will spread welfare among the people and the rich kingdom will result—the wealth of nations consists not of treasure but of a sufficient supply for all the populace of all sorts of goods needed to satisfy man's wants.

Gradual Growth of Laissez Faire. Just as mercantilism did not stop suddenly, so economic freedom and laissez faire did not start suddenly. There were mercantilists, as we have seen already, who advocated freer trade, and there were physiocrats who quoted mercantilists with approval. Vincent de Gournay (1712–59), who is said to have coined the phrase, "*laissez faire, laissez passer*," had translated some of the English mercan-

---

[23] Marshall, Alfred, *Industry and Trade* (London: Macmillan & Co., Ltd., 1927), Appen. D, p. 740.

[24] Marshall, Alfred, *Principles of Economics* (London: Macmillan & Co., Ltd., 1930), p. 757 n. 1.

tilistic pamphlets including one by Josiah Child advocating greater freedom. Barbon wrote sixty years before Cantillon and anticipated him in some of his views. We have already mentioned similar "unmercantilist" ideas expressed by Coke, Davenant, and North. It was of the last-mentioned author's work written in 1691—about seventy years before physiocracy—that the famous economist Ricardo wrote: "I had no idea that anyone entertained such correct opinions, as are expressed in this publication at so early a period."[25]

The Physiocrats. The physiocrats, or *Les Economistes*, as they called themselves, constituted a French school of thought, born in protest to the social and economic condition which attended Colbertism or French mercantilism. The movement, as such, lasted about fifty years. Ferguson points out that, while mercantilism was both a policy and a set of doctrines, physiocracy had "in the main only a doctrinal aspect." It existed, accordingly, only in men's minds except for some unsuccessful attempt to apply its teachings in France, Baden, Austria, and Sweden, and consequently "in a direct way . . . . the work of the physiocrats has but little value."[26] We take the word "direct" here to point to the actual application of physiocratic teachings on taxation, and so on, by the governments of the world; for certainly physiocracy had a "direct" effect on mercantilism's decline and the rise of laissez faire economic principles. Philosophically, the emphasis on nature—physiocracy, meaning the rule of nature—finds its roots in the ideas of such writers as Charles Louis Montesquieu (1689–1775), Jean Jacques Rousseau (1712–78), and Francis Voltaire (1694–1778), although the ideas of earlier writers such as Montaigne, Bacon, Grotius, Descartes, Locke, and others undoubtedly played a part.[27]

Blackstone on Freedom of Action. By 1765, moreover, this emphasis on freedom had undoubtedly found its way into the law of England itself. The following quotation from Blackstone's *Commentaries* shows clearly that jurists as well as philosophers and writers on political economy were thinking along new lines:

> As, therefore, the Creator is a being, not only of infinite power and wisdom, but also of infinite goodness, he has been pleased so to contrive the constitution and frame of humanity, that we should want no other prompter to enquire after and pursue the rule of right, but only our self love, that universal principle of action. For he has so intimately connected, so unseparably interwoven the laws of external justice with the happiness of each individual that the latter cannot be attained but by observing the former, and if the former be punctually obeyed, it cannot but induce the latter. In consequence of which mutual

[25] Hollander, *op. cit.*, Introduction.
[26] Ferguson, *op. cit.*, p. 53.
[27] *Ibid.*, p. 46.

connection of justice and human felicity, he has not perplexed the law of nature with a multitude of abstracted rules and precepts, referring merely to the fitness or unfitness of things, as some have vainly surmised, but has graciously reduced the rule of obedience to this one paternal precept, "that man should pursue his own true and substantial happiness." This is the foundation of what we call ethics or natural law; for the several articles into which it is branched in our system amount to no more than demonstrating that this or that action tends to man's real happiness, and therefore very justly concluding that the performance of it is a part of the law of nature; or, on the other hand, that this or that action is destructive to man's real happiness, and therefore that the law of nature forbids it.[28]

Physiocracy as a Reaction to Mercantilism. Adam Smith, very happily, gives us a clue to the physiocratic attitude toward mercantilism in a manner that foreshadows the Hegelian dialectic. In the *Inquiry into the Nature and Causes of the Wealth of Nations* we read:

If the rod be bent too much one way, says the proverb, in order to make it straight you must bend it as much the other. The French philosophers, who have proposed the system which represents agriculture as the sole source of the revenue and wealth of every country, seem to have adopted this proverbial maxim; and as in the plan of Mr. Colbert the industry of the towns was certainly over-valued in comparison with that of the country; so in their system it seems to be as certainly undervalued.[29]

We shall see presently that Smith's genius lay in his ability to live under the *thesis* of mercantilism, witness the strongly presented *antithesis* of physiocracy, and yet with the perspective that calls for decades of time, was able almost at once to seek the *synthesis*. At least he was able to see certain favorable and unfavorable points in two concurrent sets of doctrines without subscribing altogether to either.

The Physiocratic View of Wealth. The physiocrats attacked the notion that money or treasure was a preferred form of wealth. For some it was not wealth. Wealth, in their opinion, consisted of resources and consumable goods. Others recognized enough of the quantity theory of money to suggest that there could be too much money with certain evil results. Still others argued in favor of the self-regulatory power of gold movements and saw no reason for governmental direction or concern in this field. From these views it followed that the control of exports and imports for the sake of a favorable balance of trade was undesirable. The balance, it must be added, was in terms of visible items since the physio-

[28] *Commentaries on the Laws of England* (1765), Book I, sec. 2. Quoted in Hamilton, W. H., *Current Economic Problems* (Chicago: University of Chicago Press, 1924), pp. 32–33.

[29] *Ibid.*, Book IV, chap. ix, p. 158.

crats, "with a few exceptions, never seem to have recognized the existence of any invisible items."[30]

The Sterile Nature of Trade. The analysis, thus far, does not differ much from that which could be built up from some mercantilist writings. But at this point the physiocrats introduced a basic concept of their own which made domestic and foreign trade "sterile," and subordinated trade and manufactures in general to the glorification of agriculture and the extractive industries.

The Motivation of Physiocratic Writers. We have already seen that many of the mercantilist writers wrote from their own self-interest. But, if their views were oppressive, let us not make the error of thinking that all the physiocrats were noble crusaders fighting solely from altruistic motives. Some were altruists. It was about these that Alfred Marshall was writing when he stated that the chief motive of their study was neither to increase the riches of merchants nor fill the exchequers of kings; "it was to diminish the suffering and degradation which was caused by extreme poverty."[31] It is obvious that the concept of freedom and emphasis on the individual have made some writers generalize and thereby forget the more selfish side of physiocracy. Professor Ferguson makes all of this clear when he says:

> The one essential ingredient of the physiocratic philosophy, stripped of much of the glamour that has surrounded their thinking, consisted in the promotion of French extractive industry, and, in particular, of agriculture. The physiocrats were very largely members of a new landed class, men who bought up the estates of bankrupt nobles, married, when they could, into the nobility, became the backbone of a new bureaucracy, and set about to make farming a paying proposition. In other words, physiocracy owed its origin to the rise of capitalist agriculture in France.[32]

With land uppermost in their minds, it was only natural for them to build a theory in harmony with the cultivator's and extractor's interest. "To landed proprietors and cultivators of land, only, did they grant the attribute of productivity. Production, to the physiocrats, meant creation of a material surplus above the cost of production. It meant the harvesting of wheat, or the catching of fish, or the mining of coal rather than the

---

[30] Bloomfield, Arthur I., "The Foreign-Trade Doctrines of the Physiocrats," *American Economic Review,* Vol. XXVIII, No. 4 (December, 1938), p. 728. On the other hand, as Viner points out, *op. cit.,* pp. 13–15, most of the important mercantilist writers did not recognize invisible items. Mun's list included "freight earnings, military expenditures abroad, marine insurance payments, gains from fisheries, losses at sea of outward and inward shipments of goods, Catholic remittances to Rome, travelers expenses, gifts, . . . interest, life and commodity insurance."

[31] Marshall, *op. cit.,* Appen. B, p. 757.

[32] Ferguson, *op. cit.,* p. 48.

baking of bread or the marketing of commodities. Not labor but nature was regarded as the producer."[33]

This belief at once toppled trade, commerce, and manufacturing from the key position they held under mercantilism while raising, at the same time, agriculture and mining in their place. Arthur Bloomfield finds that

> in reaction to the Mercantilist stress on foreign trade, the Physiocrats were led to belittle its importance and to view it with disdain. Both Quesnay and Mercier considered it a "pis-aller," resulting from the fact that the domestic market was not sufficiently large to absorb the annual output of certain goods, which had consequently to be shipped abroad. Foreign trade was considered as "sterile"; such "gains" as were made were appropriated by middlemen and constituted a deduction from the country's revenue. There is even the hint that foreign trade is destined ultimately to disappear altogether. The Physiocrats argued, moreover, that a large volume of trade might be an indication, not of prosperity, but of impoverishment. It might either represent a narrow domestic market, resulting in large exports, a scarcity of domestic wealth necessitating large imports, or regional shortages due, for example, to crop failures.[34]

And since freight charges were high, it was well to keep down the amount of trade. Followed to its logical conclusion, such a view would be antagonistic to the spirit of the navigation acts, one of the pillars of mercantilism.

Free Trade. Although by the very nature of physiocracy trade would be freer than under mercantilism, it was more the freedom resulting from indifference rather than from positive motivation. "The majority of the physiocrats," in Ferguson's opinion, "were by no means ardent champions of free trade as such. What they desired was such freedom of trade as would lead to an increase in consumption of home products, and a corresponding augmentation of output in extractive industry. The greater the productivity, they averred, the larger the surplus and the richer the kingdom."[35] Philosophically, of course, physiocracy called for free trade, that is, free in the sense of absence of restrictions. But this did not preclude the imposition of some custom duties for revenue purposes. In so far as they were free traders, according to Bloomfield, "most of their ideas on the subject were anticipated by earlier writers. The period preceding the physiocratic movement witnessed the gradual diffusion of more liberal notions on the subject of foreign trade, and many of the elements of the free trade doctrine as subsequently developed were prevalent in the literature."[36] We have already pointed out some of these notions.

The Content of the Next Chapter. In the next chapter we shall consider the analysis by Adam Smith and his followers of both the tenets

[33] *Ibid.*, p. 49.
[34] Bloomfield, *op. cit.*, pp. 731–32.
[35] Ferguson, *op. cit.*, p. 49.
[36] Bloomfield, *op. cit.*, p. 731.

of mercantilism and the teachings of the physiocrats. The name of Adam Smith is, of course, familiar as one of the great names in economics, and his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, is one of the classics of all time. While our mention of the book will be concerned solely with the latter part, it is well to remember the importance assigned to the book as a whole. Buckle regarded it as "the most valuable contribution ever made by a single individual to determine the true principles of government." McCulloch believed that it had "exercised a powerful and beneficent influence on the public opinion and legislation of the civilised world, which has never been attained by any other work." On the other hand, John Ruskin regarded Smith as "the half-bred and half-witted Scotchman who taught the deliberate blasphemy: 'Thou shalt hate the Lord, thy God, damn his laws and covet his neighbour's goods.' "[37]

SUMMARY

Although a sufficient number of men had enough ideas in common to justify the collective term, "mercantilists," their views were not unanimous. There was a fair amount of unorganized criticism of mercantilistic policies. There was a difference of opinion on the subject of treasure. At one extreme the "bullionists" forbade the export of bullion, while at the other extreme the writers saw no particular reason for an emphasis on treasure as such. They voiced a concern about the balance of trade over a period of time. There were also differences of opinion on exports and imports. They ranged from the "one world" viewpoint of Sir Dudley North to "buy-at-home" viewpoints and a virtual self-sufficiency goal. Some recognized the contagious nature of restrictions and the dangers of retaliation.

The more liberal views regarding trade reflected the decline of the rigid type of mercantilism and the gradual rise of a new philosophy of economic statesmanship. The signs of growing weakness were: systematic evasions of restrictions in which smuggling became a large industry; the lack of unity of purpose reflected in conflicting laws; the unmoral character of the movement; and the rise of an intelligent opposition in the form of physiocracy which preached the antithesis of mercantilism—even to the extreme of questioning the productivity of trade and emphasizing the laissez faire viewpoint.

QUESTIONS FOR DISCUSSION

1. Did the mercantilists constitute a "school" of economics? Explain. How do you account for the extreme disagreement among mercantilists? Discuss some of the "antimercantilistic" concepts and theories of the mercantilists.

---

[37] Seligman's "Introduction," in Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Everyman ed.; New York: E. P. Dutton & Co.), p. vii.

2. Explain why the quantity theory of money would be unacceptable to a thoroughly consistent mercantilist. To what extent was this theory recognized or accepted by the mercantilists?
3. How do you account for the decline of mercantilism? What were some of the conditions which made the system disintegrate? What significance do you attach, in this connection, to the criticisms directed against mercantilistic policy?
4. What is meant by laissez faire? What is the application of the concept to commercial policies? What relationship do you see between laissez faire and political democracy?
5. What was physiocracy? Where and when were the physiocrats most prominent? What economic class was most active in sponsoring physiocratic doctrine? Contrast physiocracy and mercantilism from the point of view of the influence attributable to each.
6. What was the attitude of the physiocrats toward trade? Explain this attitude in terms of the school's conception of wealth and its views with respect to the nature of productive activity.

CHAPTER VIII

ADAM SMITH ON MERCANTILISM AND PHYSIOCRACY

Adam Smith's Twofold Task. Adam Smith (1723–90), upon whom history imposed the twofold yet related task of developing an economic science and framing the most powerful indictment of mercantilism, was well equipped for his task. To combat mercantilism and yet not fall into the snare of physiocracy called for a man widely read in the history of all types of governments under various circumstances, a man versed in English and French philosophy, one who was unusually alert as to what was going on around him, and one who knew far too much about human behavior to give an unqualified endorsement to laissez faire. Adam Smith was widely read, as even a casual reading of the *Wealth of Nations* reveals. He associated closely with the great men of his day both in England and on the Continent. He not only knew the teachings of the physiocrats but had lived in France and knew the men themselves. Alert and successful Scotch businessmen were his close associates. Other men, perhaps, have had somewhat similar opportunities to be well informed, but Smith possessed the attributes of excellent judgment and unsurpassed reasoning powers. He enjoyed, moreover, the leisure and financial security which enabled him to devote ten years to the writing of his book which appeared in 1776.

His Sources. In carrying out his historical burden, Smith drew upon the writings and views of philosophers, mercantilists, and the physiocrats. He was indebted, as any widely read writer must be indebted, to hundreds of authors, both past and contemporary, whose thoughts remain even though the source is forgotten. Smith was aided also by the historic circumstances which made the world ready, psychologically speaking, for his book. We have already noted these circumstances which were bringing about the downfall of mercantilism and stimulating the worship of a new doctrine of freedom. Again, in so far as the England of Smith's day was in the throes of colonial controversy, his book was reflecting especially the unrest and concern for which this phase of mercantilism was directly responsible.

Smith's Approach. Smith went about his twofold task in a logical way. He was unwilling to argue with the mercantilists about how to bring about the wealth of nations until he had first inquired as to the true nature

of wealth. Having learned this, it was next in order to inquire how this wealth could be augmented and, finally, what type of governmental policy—restrictive or free—would best bring about this augmentation. Put in another way, his approach was just the reverse of his mercantilist predecessors. They gave first consideration to the rich state as personified by a rich king, as a *fait accompli*, and then worked back to the funds in the hands of the people necessary for the support of the state. Smith, however, considered first how to supply the people with a plentiful income and then considered how the state should get its share.[1] But he did more than this. He examined state functions very carefully before concluding as to which functions were necessary and deserving the support of the people; and, having reached a conclusion, he then offered suggestions as to the best means of transferring the money from the people to the government.

The Needs of Government. On too many occasions since Smith's day, the requirements of government have been considered first, and the necessary funds are appropriated. Then the means of raising them are decided with little or no attention being given to the question of whether the people can afford to pay the necessary taxes. This, we may remark, is not surprising. It is a part of mercantilistic method and is used whenever that doctrine becomes fashionable.

The Nature of Wealth. Wealth did not consist of treasure or money in Smith's opinion, and he accordingly found himself in disagreement with many mercantilists. Neither did he believe that wealth was peculiarly associated with land and the extractive industries. As a result, he could not accept the physiocratic teachings. Smith viewed wealth as coming from labor and its augmentation as resulting from a better division of labor and similar factors which result in greater production. "It is the great multiplication of the productions of all the different arts, in consequence of the division of labor, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people."[2]

Interference by Government. This widespread opulence could not be increased by governmental interference, especially of the type which interfered with competition and granted monopoly and other special privileges to the few. In fact, Smith's whole criticism of mercantilism was in terms of monopoly and the special privileges and interests of merchants and manufacturers. He placed the whole blame on them. Protective duties and prohibitions, bounties and drawbacks, the Corn Laws, the treatment of the colonies—all were the outgrowth of their demands. Their exclusive

---

[1] Compare Cunningham, W., *Growth of English Industry and Commerce* (Cambridge, England: Cambridge University Press, 1904), Vol. I, pp. 593–94.

[2] Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Everyman ed.; New York: E. P. Dutton & Co.), Vol. I, p. 10.

trading companies were "nuisances in every respect; always more or less inconvenient to the countries in which they are established, and destructive to those which have the misfortune to fall under their government."[3]

The Place of the Consumer. "It cannot be very difficult," he remarked, "to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, whose interest has been so carefully attended to; and among this latter class our merchants and manufacturers have been by far the principal architects."[4]

In an earlier passage he stated this as his creed: Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce."[5]

The Need for Analyzing the Mercantile System. Smith's concept of wealth, his emphasis on labor, and his belief in competition necessarily called for a complete overhauling of mercantilistic doctrine. It placed a different aspect on wealth getting and wealth using. It made "wealth" and "common welfare" related terms and showed the need for closing the hitherto bridgeless gap between the nobles and the tax-ridden populace. It gave to the worker a key position in building the wealth of a nation and called into question the innumerable laws which afflicted him and kept him in a status of subservience.

In order to get a more formal picture of Smith's critical views on mercantilism, let us analyze some of them in accordance with our earlier division of the subject under the headings of "Treasure," "Goods," "Population," "Food," "Navigation," and "Colonies." In so doing, we shall offer numerous quotations from the *Wealth of Nations*.

Characterizing the mercantile system as a whole, Smith complained:

> The sneaking arts of underling tradesmen are thus erected into political maxims for the conduct of a great empire . . . By such maxims as these, however, nations have been taught that their interest consisted in beggaring all their neighbours. Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider their gain as its own loss. Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity. The capricious ambition of kings

[3] *Ibid.*, Vol. II, p. 137.
[4] *Ibid.*, p. 156.
[5] *Ibid.*, p. 155.

and ministers has not, during the present and preceding century, been more fatal to the repose of Europe than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolising spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves.[6]

SMITH ON TREASURE

Treasure Viewed as a Commodity. Smith differed sharply from the mercantilists in his views on gold and silver:

A country that has no mines of its own must undoubtedly draw its gold and silver from foreign countries in the same manner as one that has no vineyards of its own must draw its wines. It does not seem necessary, however, that the attention of government should be more turned towards the one than towards the other object. A country that has wherewithal to buy wine will always get the wine which it has occasion for; and a country that has wherewithal to buy gold and silver will never be in want of those metals . . . We trust with perfect security that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for; and we may trust with equal security that it will always supply us with all the gold and silver which we can afford to purchase or to employ, either in circulating our commodities, or in other uses.[7]

What Is an Adequate Supply? How much a nation needs is determined by its economic condition which constitutes its "effectual demand" and if this be exceeded, the most sanguinary laws will not prevent the excess from leaving. Smith even questioned the need of a hoard in time of war and he offered the conclusion that "fleets and armies are maintained, not with gold and silver, but with consumable goods."[8] In a very true sense, Smith elevates corn (that is, the grains and in a larger sense, food) to a position somewhat akin to that given to gold and silver by the mercantilists. He regarded it as constituting the demand for gold and silver, as the principal part of the riches of the world, and as a better measure of value than the metals over a period of time.

The Benefit of Foreign Trade. But, if the benefit of foreign trade is not the accumulation of treasure within a country, how does Smith, casting aside the mercantilist's evaluation, justify its usefulness in the face of the physiocrat's disdain for it? Foreign trade

carries out that surplus part of the produce of . . . . land and labour for which there is no demand . . . . and brings back in return for it something else for

[6] *Ibid.*, Vol. I, p. 436.
[7] *Ibid.*, p. 381.
[8] *Ibid.*, pp. 381–82, 386.

which there is a demand. It gives a value to . . . . superfluities, by exchanging them for something else, which may satisfy a part of (the people's) wants, and increase their enjoyments. By means of it the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society.[9]

Thus, foreign trade increases the wealth of a nation not by bringing in treasure but by enlarging the market, thereby increasing the opportunities for more division of labor, the basic way for increasing wealth.

The Balance of Trade. In keeping with Smith's realizations that foreign trade should involve friendly international relations and that the gain from trade does not consist of treasure, he was entirely out of sympathy with the balance-of-trade idea and considered the laying of special restrictions on the trade with such countries with which an unfavorable balance existed as unreasonable.

Nothing . . . . can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded. When two places trade with one another, this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false. A trade which is forced by means of bounties and monopolies may be and commonly is disadvantageous to the country in whose favour it is meant to be established. . . . But that trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both.[10]

SMITH ON GOODS

Restraints upon Importation. The fallacy that "wealth consisted in gold and silver, and that those metals could be brought into a country which had no mines only by the balance of trade, or by exporting to a greater value than it imported" resulted in the erection by mercantilism of "two great engines for enriching the country—restraints upon importation, and encouragement to exportation." Restraints on importation involved high duties or absolute prohibitions. Encouragement to exportation consisted of drawbacks, bounties, "advantageous" treaties, and colonies.

Smith objected to high duties and absolute prohibitions because they

[9] *Ibid.*, p. 392.
[10] *Ibid.*, p. 431.

turned more capital and labor to those favored industries than would otherwise have been the case; and, since capital was limited, whatever capital was diverted to one industry left another with less. In addition, there was no certainty "that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord."[11]

Laissez Faire. It is in the development of his ideas on foreign trade that Smith phrases his famous defense of laissez faire—a defense not original with him, however: "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society." Man's selfishness or self-interest thus became for Smith a substitute for mercantilistic-dictated activity. Yet in the case of mercantilism-preaching merchants and manufacturers Smith did not hesitate to charge that "their interest is. . . . directly opposite to that of the great body of the people."[12]

International Division of Labor. It is in this same connection that we find his famous plea for freer trade:

> It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.
>
> What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage.[13]

This concept was not new with Smith. Professor Viner tells us that "the doctrine that differences in natural conditions in different countries made trade between these countries mutually profitable" was found in the writings of the ancient Greeks and Romans. He points out further: "The early Christian philosophers took over the doctrine and gave it a theological flavor. God had endowed different regions with limited but varied

[11] *Ibid.*, p. 398.
[12] *Ibid.*, pp. 398, 437.
[13] *Ibid.*, p. 401.

products in order to give mankind an incentive to trade, so that through a world economy they would become united in a world society, and as children of one God they would learn to love each other." He adds that "This was apparently common doctrine among the English theological writers of the sixteenth century and later."[14]

Regulation Might Hasten Development. Admittedly, by means of regulation an industry might develop sooner than if left alone, and it might, after a time, supply the home market more cheaply. But again, this in itself, by diverting capital from other industries, might actually diminish the wealth of a country or fail to augment it as rapidly as if capital had been left to seek its own investment.[15]

This situation would certainly prevail in the case of some commodities where territorial division of labor had best been recognized:

> The natural advantages which one country has over another in producing particular commodities are sometimes so great that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hotbeds, and hot walls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and burgundy in Scotland? But if there would be a manifest absurdity in turning towards any employment thirty times more of the capital and industry of the country than would be necessary to purchase from foreign countries an equal quantity of the commodities wanted, there must be an absurdity, though not altogether so glaring, yet exactly of the same kind, in turning towards any such employment a thirtieth, or even a three-hundredth part more of either. Whether the advantages which one country has over another be natural or acquired is in this respect of no consequence. As long as the one country has those advantages, and the other wants them, it will always be more advantageous for the latter to buy of the former than to make. It is an acquired advantage only, which one artificer has over his neighbour, who exercises another trade; and yet they both find it more advantageous to buy of one another than to make what does not belong to their particular trades.[16]

Justifiable Duties. Smith recognized "two cases in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry." Such aid was justified "when some particular sort of industry is necessary for the defence of the country," and on this ground he accepted navigation acts, as we shall see presently.

---

[14] Viner, Jacob, *Studies in the Theory of International Trade* (New York: Harper & Bros., 1937), p. 100.

[15] Smith, *op. cit.*, Vol. I, p. 402.

[16] *Ibid.*, pp. 402–3.

His other case was the acceptance of the principle of imposing a duty on similar foreign goods sufficient to equalize a tax placed on their domestic manufacture.[17]

He also took into account two cases in which the use of a tariff might be justifiable. The first involved a situation "when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country. Revenge in this case naturally dictates retaliation, and that we should impose the like duties and prohibitions upon the importation of some or all of their manufactures into ours." But such retaliation must have in view the repeal of the legislation complained of and should not be taken as an excuse to raise rates generally and thereby harm society as a whole.[18]

The second justifiable continuance of the tariff had to do with those industries which have had protection and which employ many people. "Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection." The sudden removal of such protection might cause cheaper foreign goods to ruin the domestic market and deprive many of a livelihood. Therefore, "changes of this kind should never be introduced suddenly, but slowly, gradually, and after a very long warning."[19]

Revenue Tariffs. While, except for these four situations, Smith would be loathe to recognize protective tariffs and prohibitions, he was not opposed to revenue tariffs and did not include them in his discussion of mercantilism. High tariffs led to smuggling and other forms of evasion and frequently afforded "a smaller revenue to government than what might be drawn from more moderate taxes." But a revenue tariff if placed on a few selected articles and having the characteristics of simplicity, certainty, and precision would have Smith's endorsement.[20] He would regard it as on a par with excise taxes and even somewhat less irritating, while the advantages would lie in a larger revenue and in the possibility that "our own workmen might still have a considerable advantage in the home market."[21] An advantage would accrue from the incidental protection and the greater amount of trade in the articles not taxed, while those admitted free (presumably the necessities of life and raw materials) would cost less, benefiting both the laborer and manufacturer.

Drawbacks. In addition to a monopoly of the home market, Smith charged that traders desired that the government aid them in building up export markets as well, and the encouragement they sought took the form

[17] *Ibid.*, pp. 406, 408.
[18] *Ibid.*, pp. 411–12.
[19] *Ibid.*, pp. 412–15.
[20] *Ibid.*, Vol. II, pp. 365–66.
[21] *Ibid.*, p. 364.

of drawbacks, bounties, advantageous treaties of commerce, and colonial domination. The payment of drawbacks in order to encourage exportation met with Smith's approval as "the most reasonable." By the term, Smith meant two types of reimbursement. The one consisted of the return to the exporter of the excise or inland duty imposed upon a product of domestic industry; the other involved the repayment of duties previously paid upon importation when the goods in question were re-exported. The use of drawbacks did not give industry a direction it would not have taken in their absence and could not be charged with diverting the capital of a country. Their use, however, should be watched lest the goods be reimported clandestinely or be sent to a monopolized market such as colonies, in which case it would be doubtful whether the drawbacks would promote greater exportation than would have existed otherwise.[22]

Bounties. Smith approached the subject of the bounty with some sarcasm. "We cannot force foreigners," he said, to buy British goods "as we have done with our own countrymen." Accordingly, "the next best expedient, it has been thought, ... is to pay them for buying. It is in this manner that mercantile system proposes to enrich the whole country, and to put money into all our pockets by means of the balance of trade." But no bounty should be paid to any industry which can sell its products at a price sufficient to cover costs, including ordinary profit. A bounty could only be tolerated where it was intended to help an industry get started or continue one that must sell at a loss. Such an industry, however, if exporting regularly, represents a loss and indicates that capital has been forced into a less advantageous channel than it would have taken in the absence of such a bounty. Bounties also were said to "encourage rash undertakers to adventure in a business which they do not understand, and what they lose by their own negligence and ignorance more than compensate all that they can gain by the utmost liberality of government." In the case of the white-herring fishery bounty, awarded on a tonnage basis, Smith remarked with a good deal of humor: "It has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty." Should the commodity in question be needed for national defense, the use of a bounty "might not be unreasonable" because, as we are reminded more than once, defense is more important than opulence.[23]

Premiums. Premiums were justifiable and not open to the same objections as bounties. They did not "overturn the natural balance of employments" but encouraged better work and awakened ingenuity within each occupation. They were not an expensive device, moreover, whereas the bounty on corn alone "cost the public in one year more than

[22] *Ibid.*, pp. 1, 2, 6.
[23] *Ibid.*, pp. 6, 7, 21, 19.

three hundred thousand pounds."[24] We shall consider Smith's views on the corn laws and corn bounties presently.

The Use of Treaties. Smith pointed out that concessions made through treaties of commerce must be looked at both from the viewpoint of the favored and the favoring nation. A treaty, for example, which bound a nation, "either to permit the entry of certain goods from one foreign country which it prohibits from all others, or to exempt the goods of one country from duties to which it subjects those of all others" would prove beneficial to the favored country "or at least to its merchants and manufacturers." The benefit could be twofold: a larger market and one in which a better price could be obtained because of the shelter afforded against the competition of other nations.

But the merchants and manufacturers of the favoring country would soon find that "a monopoly is thus granted against them to a foreign nation; and they must frequently buy the foreign goods they have occasion for dearer than if the free competition of other nations was admitted." This dearer price for goods purchased meant that a nation's goods were offered cheaper, and, while this might not be "a positive loss," it did lessen the gain which it might otherwise make. In so far as the favoring country would sell at a price covering cost and ordinary profit, "even the favoring country . . . . may still gain by the trade, though less than if there was a free competition."

The Methuen Treaty of 1703 as an Example. Smith, however, centered attention not so much on the theoretical possibilities stated above but rather on the use of a treaty of commerce as a scheme to build up a favorable balance of trade to be paid in the precious metals. He devoted considerable space to the Methuen Treaty concluded in 1703 between Portugal and England. The former was possessed of large quantities of the metals coming from Brazil, and, since these metals flowed out in spite of the usual prohibitions, it seemed desirable for England to obtain her share by selling more to Portugal than she bought.

Portugal undertook to remove prohibitions on English woolen cloth and woolen manufactures and subject them only to the rate of duties in force prior to the prohibition—but on a scale not necessarily better than granted to other countries. In return, England bound herself to admit Portuguese wines at two-thirds of the duty paid by French wines. These terms, though "celebrated . . . . as a masterpiece of the commercial policy of England," failed to appeal to Smith. He did not believe that the importation of gold and silver could benefit England since the importance of imports lay in their consumable quality and the metals would have to be re-exported to other lands in order to obtain consumable goods. "A direct

[24] *Ibid.*, p. 23.

foreign trade of consumption is always more advantageous than a round-about one." Furthermore "though Britain were entirely excluded from the Portuguese trade, it could find very little difficulty in procuring all the annual supplies of gold which it wants . . . ." because gold, like any other commodity, could always be obtained by giving other goods or values for it.[25]

SMITH ON POPULATION

A Large Population. No mercantilist ruler was more enthusiastic about a growing population than was Adam Smith. For him such an increase constituted the "most decisive mark of the prosperity of any country." Although not regarding a large population as a potential army or navy as some mercantilists did, he recognized the superiority of a large standing army over an army of mercenaries. To bring about this increase, Smith did not suggest the mercantilistic encouragements of tax exemptions, special honors, and rewards to large families. The best encouragement he found to be "the liberal reward of labor." This becomes possible with increasing wealth, and "to complain of it is to lament over the necessary effect and cause of the greatest publicity prosperity." In other words, "the demand for men, like that for any other commodity, necessarily regulates the production of men." The mercantilists, it will be remembered, were anxious to keep wages low lest the possibilities of exporting large quantities of finished goods be checked. A well-paid labor group not only meant an increase in population from a quantitative point of view, however. There was, Smith taught, the qualitative improvement as well—namely, the increase in "the industry of the common people."

For the best results, therefore, labor, too, should be left free from all unnecessary interference by government. "The patrimony of a poor man," to repeat his famous words, "lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbor is a plain violation of this most sacred property." In so far as mercantilists stressed long apprenticeships and a limited number of apprentices per master and denied the right of the skilled artisan to leave the country, they were out of harmony with Smith's ideas concerning a worker's freedom. "It is unnecessary, I imagine," Smith comments, "to observe how contrary such regulations are to the boasted liberty of the subject of which we affect to

[25] *Ibid.*, pp. 43–46. See also p. 155. In connection with the proposed but rejected Methuen Treaty with France, a controversy sprang up between *The Mercator*, carrying Defoe's articles in favor of the treaty, and the *British Merchant*, which was opposed. The latter advocated the protective tariff system and enjoyed a great vogue for forty years. George I permitted the use of public money to print and circulate copies. Johnson, E. A. J., *Predecessors of Adam Smith* (New York: Prentice-Hall, Inc., 1937), pp. 146 ff.

be so jealous; but which, in this case, is so plainly sacrificed to the futile interests of our merchants and manufacturers."[26]

SMITH ON FOOD

The Importance of Food. Smith looked upon corn or the grains, under which caption he included wheat, beans, barley, malt, oats, peas, rye, and buckwheat, as differing from other goods. Corn, he regarded as the regulatory commodity "by which the real value of all commodities must be finally measured and determined." In his opinion, "The real value of every other commodity (such as woolen or linen cloth) is finally measured and determined by the proportion which its average money price bears to the average money price of corn. The real value of corn does not vary with those variations in its average money price." But corn, that is, food, not only is the measure of value, it "constitutes the principal part of the riches of the world" and "it is the abundance of food which gives the principal part of their value to many other sorts of riches." The abundance and a surplus of food, it follows accordingly, "is the great cause of the demand both for the precious metals and the precious stones, as well as for every conveniency and ornament of dress, lodging, household furniture, and equipage."

That system, then, was best which made for abundance of corn and its free movement in trade. Such a system would be the one in which trade would be free; but, because of the dominance of mercantilistic teachings, it is almost everywhere subject to legislation. Smith was too much of a realist not to recognize that the "very bad policy of one country may thus render it in some measure dangerous and imprudent to establish what would otherwise be the best policy in another." Smith saw, however, that not only the statesmen but the public as well had a definite attitude towards, and a unique interest in, the corn trade. He used some curious language in this connection:

> The laws concerning corn may everywhere be compared to the laws concerning religion. The people feel themselves so much interested in what relates either to their subsistence in this life, or to their happiness in a life to come, that government must yield to their prejudices, and, in order to preserve public tranquillity, establish that system which they approve of. It is upon this account, perhaps, that we so seldom find a reasonable system established with regard to either of those two capital objects.

The Bounty on Corn. Since corn occupied such a position, it followed that a bounty or any other interference having an influence on the money price of corn, would have a serious influence on wages and prices. Smith sought to refute one of the principal arguments in favor of the

[26] Smith, *op. cit.*, Vol. I, pp. 62, 71–73, 110; Vol. II, pp. 153–54.

bounty on corn, namely, the improvement in general conditions since its use. He pointed out with impatience that, "Though the period of the greatest prosperity and improvement of Great Britain has been posterior to that system of laws which is connected with the bounty, we must not upon that account impute it to those laws. It has been posterior likewise to the national debt but the national debt has most assuredly not been the cause of it." The price of corn fell, furthermore, before the bounty was established "and cannot possibly have happened in consequence of it." A similar drop in price occurred likewise in France

> though in France there was not only no bounty, but, till 1764, the exportation of corn was subject to a general prohibition.
>
> In years of plenty, ... the bounty, by occasioning an extraordinary exportation, necessarily keeps up the price of corn in the home market above what it would naturally fall to. To do so was the avowed purpose of the institution. In years of scarcity, though the bounty is frequently suspended, yet the great exportation which it occasions in years of plenty must frequently hinder more or less the plenty of one year from relieving the scarcity of another. Both in years of plenty and in years of scarcity, therefore, the bounty necessarily tends to raise the money price of corn somewhat higher than it otherwise would be in the home market.

The Bounty as a Tax. This type of bounty imposed two types of taxes on people. There was, first, the tax necessary to raise the funds to pay the bounty and, second, the tax in the form of higher prices in the home market. The result was either that the laboring poor's subsistence was reduced or money wages had to be increased. If the first obtained, the laboring class could not educate and bring up children. This would keep down population. If the second followed, employers would hire less labor and industry would be harmed. It could prove harmful to labor in another way. The bounty by enabling workers in other countries to eat "our corn" cheaper than they would otherwise and sometimes cheaper than "our own workmen" would tend to render "our manufactures" somewhat dearer and theirs somewhat cheaper "and consequently to give their industry a double advantage over our own."

The Beneficiaries of the Bounty. Those who benefited from the bounty were the corn merchants engaged in exporting and importing corn. In years of plenty, the bounty enabled them to export more corn, while in years of scarcity (because the plenty had been exported previously), they could make a profit on greater importation. "It is in this set of men, accordingly," remarked Smith, "that I have observed the greatest zeal for the continuance or renewal of the bounty."

Freedom of the Corn Trade. If the general corn law system of the mercantilists was the wrong policy, what, it may be asked, did Smith suggest? In keeping with his system of economics, he would leave the

price of corn to the market. If corn became relatively scarce, let the price rise. This "puts everybody more or less, but particularly the inferior ranks of people, upon thrift and good management." Not only would this be best for the people, but it would serve the interests of the corn dealer as well. He would, nevertheless, be limited in the extent of the price increase in view of the fact that, if it were too great, he would have an excess left on his hands at the end of the season. But, if the corn trade were free, it might put an end to famine. Smith believed that "a dearth has never arisen" except, "in by far the greatest number of cases, by the fault of the season;" but "a famine has never arisen from any other cause but the violence of government attempting, by improper means, to remedy the inconveniences of a dearth." When government fixed a price, it either hindered dealers from bringing corn to market, which resulted in a famine, or, if they brought it, the people would consume it so fast that there would be a famine before the end of the season. Left alone, corn would come to the market as the price reflected the effectual demand of the people.[27]

SMITH ON NAVIGATION

Navigation Acts Defensible. On grounds of national defense rather than on economic grounds, Smith advocated legislation of the type of the navigation acts. He believed that it would "generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry" when that industry "is necessary for the defense of the country." In the case of Great Britain, much of her defense "depends very much upon the numbers of its sailors and shipping. The act of navigation, therefore, very properly endeavours to give the sailors and shipping of Great Britain that monopoly of the trade of their own country, in some cases by absolute prohibitions and in others by heavy burdens upon the shipping of foreign countries."

The motivation behind the acts might have been national animosity against the Dutch, in part; nevertheless, they were "as wise . . . . as if they had all been dictated by the most deliberate wisdom." In fact they were, perhaps, "the wisest of all the commercial regulations of England."[28]

Bad Effects of the Navigation Acts. The carrying trade, however, according to Smith, was not the cause of wealth but rather the natural effect and symptom of it. Here, again, is a belief that is the reverse of that

[27] *Ibid.*, Vol. I, p. 159; Vol. II, pp. 8, 9, 14, 15, 16, 26, 39, 40.

[28] Bastable, C. F., *Theory of International Trade* (London: Macmillan & Co., Ltd., 1903), p. 145 n., offers this interesting comment: "It is not, however, quite certain that Adam Smith really approved of the maintenance in his time of the Navigation Laws. His remark . . . does not necessarily imply that he thought them 'wise,' since he regarded the other as supremely foolish. Such a mode of expression is not unusual with him."

held by the mercantilist. But Smith's greatest concern about the economic effects of navigation acts was in terms of the colonial trade. He was unwilling to credit the acts with the growth of English trade which he found had reached large proportions before the acts were passed and before colonial trade had become considerable. Admittedly, however, the colonial trade increased continually after the acts were passed; and, since Britain had a monopoly of this trade under the acts she apparently benefited. But this was accompanied by a decline in "many other branches of foreign trade, particularly of that to other parts of Europe."

As time went on, English manufactures became more and more suited to the distant market of the American colonies and less and less suited to the convenient, neighboring markets of Europe. As a result, British commerce no longer passed through many small channels but concentrated in the single channel of the colonial market. Great Britain, as a result, said Smith writing as a contemporary:

> resembles one of those unwholesome bodies in which some of the vital parts are overgrown, and which, upon that account, are liable to many dangerous disorders scarce incident to those in which all the parts are more properly proportioned. A small stop in that great blood vessel, which has been artificially swelled beyond its natural dimensions, and through which an unnatural proportion of the industry and commerce of the country has been forced to circulate, is very likely to bring on the most dangerous disorders upon the whole body politic. The expectation of a rupture with the colonies, accordingly, has struck the people of Great Britain with more terror than they ever felt for a Spanish Armada, or a French invasion.[29]

SMITH ON COLONIES

The Treatment of Colonies. It is not possible to separate the views of Smith in so far as they treat of the navigation acts and the colonies. But he does devote a chapter of eighty-three pages to the subject of the relation of the colonies to the mother-country. Rich in historical reference, the discussion soon narrows down to the treatment of colonies by mercantilistically-minded countries. The methods of governing them, the use made of them, and the returns expected from them differed. But the most generously treated, in Smith's estimation, were the British possessions in America.

As a basic principle for colonial administration, Smith suggested that: "Plenty of good land, and liberty to manage their own affairs their own way, seem to be the two great causes of prosperity of all new colonies." But this liberty was not inconsistent with taxation of the colonies. "It is

---

[29] Smith, *op. cit.*, Vol. I, pp. 406–8, 93, 101–2.

not contrary to justice that both Ireland and America should contribute towards the discharge of the public debt of Great Britain." Much of that debt clearly arose out of defending them. Yet the "English colonists have never yet contributed anything towards the defence of the mother country, or towards the support of its civil government. They themselves, on the contrary, have hitherto been defended almost entirely at the expense of the mother country."

Criticism of the Treatment. It is, however, contrary to the principle of liberty and "a manifest violation of the most sacred rights of mankind" for the mother-country "to prohibit a great people . . . . from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves." Such "regulations in colonial trade, however, have arisen because the merchants who carry it on . . . . have been the principal advisers. We must not wonder, therefore, if, in the greater part of them, their interest has been more considered than either that of the colonies or that of the mother country."

Smith objected to this selfishness on the part of these merchants who would exploit the colonies. "To found a great empire," he declared with contempt, "for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers; but extremely fit for a nation whose government is influenced by shopkeepers."

To What Extent the Treatment Had Been Harmful. Adam Smith in the heart of the colonial controversy tried to be analytical. While advocating liberty in the colonies, yet expecting the colonists to pay taxes, and while placing the blame for hurtful restrictions on merchants, he nevertheless did not admit that the colonists had been much harmed. This becomes clear in the following quotation:

> Land is still so cheap, and, consequently, labour so dear among them, that they can import from the mother country almost all the more refined or more advanced manufactures cheaper than they could make them for themselves. Though they had not, therefore, been prohibited from establishing such manufactures, yet in their present state of improvement a regard to their own interest would, probably, have prevented them from doing so. In their present state of improvement those prohibitions, perhaps, without cramping their industry, or restraining it from any employment to which it would have gone of its own accord, are only impertinent badges of slavery imposed upon them, without any sufficient reason, by the groundless jealousy of the merchants and manufacturers of the mother country. In a more advanced state they might be really oppressive and insupportable.

Effects on Other Countries. In addition to the harm which colonial restrictions exerted on the colonies themselves, they harmed the mother-

country through the warping of the normal course of commerce, as pointed out previously, and, "like all the other mean and malignant expedients of the mercantile system," depressed "the industry of all other countries . . . . without in the least increasing but on the contrary diminishing that of the country in whose favor it is established."[30]

SMITH ON PHYSIOCRACY

The Extent of Smith's Agreement. It is not surprising that Adam Smith found himself sympathetic to the general principles of physiocracy when we recall that he had lived among its proponents and, like them, was much opposed to the mercantile system. Accordingly, we read that physiocracy "with all its imperfections, is, perhaps, the nearest approximation to the truth that has yet been published upon the subject of political economy." With its doctrines that wealth consists of consumable goods rather than money and that perfect liberty is the best means of increasing wealth, Smith is in agreement. But he was critical of the treatment physiocracy gave to productive labor. The physiocrats, as we have seen, regarded as unproductive merchants, artificers, manufacturers, and similar groups, not in an opprobrious sense, but because they did not produce a surplus in the way that agriculture and the extractive industries yielded a surplus. Smith showed that this unproductive class was very useful. The part played in the division of labor enabled the cultivators to concentrate on their tasks while at the same time caring for their needs. "The plough goes frequently the easier and the better by means of the labor of the man whose business is most remote from the plough."

A Danger in the Physiocratic Doctrine. Smith feared that the cultivators, freed from the regulations of mercantilism and imbued with their new importance under a physiocratic regime, might, in turn, oppress the merchants, artificers, and manufacturers with restraints and discouragements. Accordingly, he hastened to insist that the "greater the liberty which this unproductive class enjoys, the greater will be the competition in all the different trades which compose it, and the cheaper will the other two classes be supplied, both with foreign goods and with manufactured produce of their own country." The cultivators would be aided in another way: Freedom of trade would enable the disposal of a larger surplus product and increase its purchasing power. Eventually, moreover, an agricultural state would build up more capital than could be used on land "and the surplus part of it would naturally turn itself to the employment of artificers and manufacturers at home." These latter would, in time, jostle foreign products out of the home market, and then, later on, even compete in the foreign market. All this would lead to more and more

[30] *Ibid.*, Vol. II, pp. 69, 426–27, 72, 81, 110, 80, 123, 107.

capital—more than the cultivator and manufacturer needed, and a flourishing foreign trade could be financed.[31]

SUMMARY

Adam Smith, in writing *An Inquiry into the Nature and Causes of the Wealth of Nations,* first questioned the nature of a nation's wealth which he found to be produced by labor and by a better division of labor rather than consisting of treasure itself. In the process, Smith developed the foundations of economics. In the latter part of his study he shows wherein he differs from the teachings of the physiocrats. He attacked systematically the tenets of mercantilism. Smith objected to singling out treasure for special consideration. He thought that a country's gold supply would be cared for in the ordinary course of international trade—a country lacking gold mines would obtain it through purchase with other goods. Smith saw advantages in international trade to lie in the export of surplus and the import of goods for which there was a demand. He objected to high duties and absolute prohibitions in the form of duties, saw the importance of the international division of labor, and recognized the use of duties in building up industries of importance to national defense and in offsetting taxes imposed on domestic production of similar goods.

He also allowed the conditional use of duties temporarily in a retaliatory sense to bring other countries to terms and to protect vested interests against a sharp and sudden removal of protective rates. He saw no objections to revenue tariffs and some reasonableness to drawbacks and premiums, but he objected to bounties. He pictured no outstanding advantages in commercial treaties. Smith was a strong advocate of a large population, not for mercantilistic reasons, but as the best evidence of the prosperity of a country. The labor supply which the population afforded was to be left as free from restraint as possible.

Smith paid special attention to the food supply and advocated its free movement in trade. Accordingly, he opposed the use of a bounty on corn. He found the navigation acts defensible on the grounds of national safety. While criticizing the mercantilistic treatment of colonies by the mother-country, he thought the American colonies were the most generously treated.

QUESTIONS FOR DISCUSSION

1. In what respect was Adam Smith's *Wealth of Nations* a synthesis? What twofold task did Smith accomplish in his masterpiece?
2. How did Smith's views concerning the source of wealth differ from those of the mercantilists? The physiocrats? Can you see how these differences would cause Smith's views on international trade to differ from those of the mercantilists and physiocrats? Explain.

[31] *Ibid.*, pp. 168, 172, 163–65.

3. What were Smith's ideas on the importance of the precious metals?
4. On what grounds did Smith object to high duties and absolute prohibitions on the importation of goods? What is meant by territorial specialization of labor, and what is its significance in this connection?
5. Under what circumstances did Smith believe that protective duties or other restrictions on imports were justifiable?
6. What is a revenue tariff? Can a revenue tariff be protective? Explain. What were Smith's attitudes on a tariff for revenue purposes?
7. Explain the nature of drawbacks, bounties, and premiums, and discuss Smith's reactions to the use of each. How did Smith feel about the use of commercial treaties? Do you think Smith would have favored the Reciprocal Trade Agreements Act of the United States? Why?
8. In what respects did Smith agree with the mercantilists on the subject of population? How did he differ from them?
9. What special significance did Smith attach to "corn"? Explain his opinions on the desirability of bounties on the exportation of grain.
10. On what grounds could Smith support the navigation acts? What "unwholesome" effects did he say they had in connection with colonial trade?
11. How did Smith evaluate England's colonial policy?
12. What were Smith's reactions to physiocracy?

Chapter IX

COMMERCIAL THEORIES IN ENGLAND AFTER 1776

Translations of the *Wealth of Nations*. In the same year that the *Wealth of Nations* appeared, it was translated into German. Three years later, French and Italian editions appeared. In 1780, a Danish edition was published. The translation into Spanish was made in 1794, and a Russian edition was printed in 1806. Thus, this celebrated attack on the mercantile system became generally available throughout Europe and presumably in the American colonies almost immediately or within a comparatively few years after its appearance. Smith soon numbered readers and followers in each land, among whom were both celebrated theorists and famous statesmen.

Living as they did in various countries which were differently endowed by nature and were in different stages of political development and during the years of rapid change following 1776, it is not surprising that they found reasons for criticizing some portions of the *Wealth of Nations*, agreeing with others, and attempting to refine or develop further still others. They were not interested in disinterring the corpse of mercantilism for further autopsy or burying it any deeper, but they were concerned with destroying those mercantilistic teachings which were still rather firmly entrenched in law and economic institutions and utilizing others which might still be of service to growing nations. In this process it seems reasonable to suppose that the writings of the economists on commercial theories influenced the statesmen to some extent, while the acts of statesmen must undoubtedly have had their effect on the theorists.

The Influence of Laissez Faire. The downfall of mercantilistic theory was swifter than that of mercantilistic practice. But the substitute theory of laissez faire was to prove a powerful weapon in the wiping out of that practice. It is interesting that even Adam Smith, brilliant observer and interpreter of his time, could not gauge correctly how far the reaction against mercantilism would carry English policy. Although he quotes a proverb, to which we have referred earlier, that "if the rod be bent too much one way . . . . in order to make it straight you must bend it as much the other," he could not picture the triumph of free trade as a rebound from mercantilism. "To expect, indeed, that freedom of trade should ever be entirely restored in Great Britain is as absurd," he said, "as to

expect an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerably, the private interests of many individuals, irresistibly oppose it." Yet, while he was writing this, the movement had already begun—a movement which was to involve the abolition of corn laws and navigation acts by 1849 and the complete victory of free trade by 1860.

Likewise in the other important regions in Europe, the influence of the physiocrats, Smith, and others was being felt. In France and in Prussia and the other German states, tariffs were being simplified and reformed, internal free trade was substituted for innumerable restrictions, navigation acts and corn laws were modified or abolished. In each country, moreover, prominent statesmen were emerging as champions of freer trade.

Protectionism. In the United States, Alexander Hamilton and others were salvaging from mercantilism, as it were, the vital elements which they considered essential to the building of a nation—elements which might be viewed as forming a new system called "protectionism." Obviously, the tools and even the reasoning of protectionism were not new, but the use to which the policy was now put was to involve implications and exert influences far more significant than ever before. Protectionism was to prove itself the dominating force in commercial relations, and the world was to witness pendulumlike swings toward and away from high tariffs and low tariffs from that time on, with free trade consistently followed in less than half a dozen regions of the world.

The Writers Who Came after Smith. While laissez faire was winning supremacy in some realms of economic activity and in some regions, we might ask the question: "What were the followers of Smith and other writers doing in the realm of international trade and commercial policy?" It is to an answer to this question that we now turn. Writers in England were no longer concerned with the theoretical weaknesses of mercantilism although they were still urging the removal of mercantilistic relics and giving moral support to the statesmen working for this end. Their primary concern was to bolster up the new doctrine of laissez faire and, at the same time, to build up a science of economics—a field far vaster, of course, than international trade.

Early American writers were not so much concerned about the theory of trade or refinements of Smithian theories as they were with trade policy. The United States was in a very real sense the battleground for protectionism. It was here that Friedrich List absorbed the belief in protectionism which he was to carry back to Europe where it was to grow eventually into neomercantilism. Much later, American writers were to take up the theories of international trade and international finance which were to be so enriched through the writings of Taussig and his followers.

We approach the task of writing the present chapter with a realization that the presentation of the classical theories of international trade has been the downfall of many a writer. It is not only the question of what to present but of how to present it. There are the questions as to the space to be given to the subject and even the position of the material in the book. Some writers have treated the subject far too briefly, with the result that the reader is left with a very hazy idea of what is involved, and he fails to see how the theory is related to the policies and practices of trade. Others have made the material too abstract. Others, again, have written in a way that presupposes a fairly extensive knowledge of economic theory on the part of the reader. Some have separated the theory from what they have called the "practice." Some have treated the material in terms of writers, while others have presented the theories, mentioning the writers incidentally. In addition, some writers have even tried to omit the theory entirely.

As we view our task, however, a knowledge of the theory of international trade is essential if we are to be able to think clearly at a time when the world has swung back to mercantilism. The intelligent man and woman today not only must understand contemporary conditions but must have clearly in mind the theorizing which once before removed the more objectionable features of restrictions and showed mankind the benefits of a freer international trade. In other words, until about 1920, we could study mercantilism as an historical system and we could study classical theory for the mental gymnastics and satisfaction it involved. But, since that date, restriction is no longer only historical. Classical theory must once again be studied to see if it is still a weapon to help cut through to a new freedom. Extreme nationalism and nation building and rebuilding as well as Machiavellianism have returned. Rulers have once more turned to the stressing of the state above the individual and are once more employing the tools of mercantilism—treasure, goods, population, food, colonies, and ships. For this reason, we have devoted chapters to mercantilism, to its criticism, to the system of Smith and others. For the same reason, we propose to record in this chapter the classical theory as advanced by a group of famous English economists: Malthus, Ricardo, Mill, and Marshall, who have been called members of the classical school of economics.

THE ENGLISH CLASSICAL SCHOOL

The English Classical School. The relations that existed between the writers and statesmen in England during the century following the appearance of the *Wealth of Nations* has been well expressed by William Ashley in his Presidential Address before the British Association:

No great English economist indeed neither Adam Smith, nor Malthus, nor Ricardo, nor John Stuart Mill—was, in fact, an out-and-out free trader so far

as practical application was concerned. Still less were they resolute non-interventionists over the whole range of economic life; for entirely consistent and unlimited *laissez-faire* we should have to go to their more severely logical French contemporaries. But they based themselves on certain general principles, and they drew from them general conclusions which practical politicians could easily employ to justify an absoluteness of policy from which they shrank themselves; they were reverenced as spiritual masters, whose occasional aberrations must be lamented or disregarded.[1]

Assumptions of the School. In terms of Ashley's analysis, these writers assumed nature to be beneficent. By "nature" they meant "the operation of the unpremeditated instincts, desires, passions of individual men and women." Any interference by outside authority, it followed, was artificial and, accordingly, bad because individual freedom or liberty is natural and good. Since society is nothing more than the sum total of individuals, the wealth and profit of the state is the aggregate of that of the individuals in the state. Social and individual interest are therefore identical. In the pursuance of this interest, individuals can be trusted to develop the peculiar natural advantages of the country and to allocate to such development the proper proportion of capital and labor. Since different countries are differently endowed by nature, one country may be able to produce a given product more cheaply than another. The interest of each is best served by following this international division of labor, and, if in this process a native industry suffers, it is evidence that it had no economic right to exist and that the labor and capital employed should be transferred to some other venture.

THOMAS ROBERT MALTHUS

Thomas Robert Malthus (1766–1834). Thomas Robert Malthus, clergyman, traveler, and professor of modern history and political economy at Haileybury, near London, was not writing about mercantilism as a whole but was vitally concerned with two related aspects of it, namely, the effects of a growing population and the finding of sufficient food (corn) for survival. The reader will recall how the mercantilists emphasized population and offered incentives to bring about its increase, and the manner in which they sought a sufficient food supply for that population—by offering bounties on the export of corn and restricting importation in accordance with an established scale of prices. The reader will also recall that Smith, too, favored a growing population but was opposed to the corn laws as a method of feeding it. Malthus, in turn, was attempting to show the evils of an unrestricted population but, at the same time, sought to harness the corn laws of the mercantilists to insure

[1] Ashley, William, "A Retrospect of Free Trade," *Economic Journal*, Vol. XXXIV (1924), pp. 501–39.

an adequate food supply. Herein we find the differences in viewpoints of Malthus and Smith.

Essay on Population. In his celebrated *Essay on Population,* which appeared in 1803 as an enlarged edition of his anonymous *Essay* of 1798, Malthus analyzes the twofold problem of population and food. Looked upon today as a basis for a separate study, it nevertheless deserves attention in a discussion of international commercial policies in the light of modern and contemporary world experiences when once again nations are concerned with increasing their population and their "corn" supplies. According to Malthus:

> The prejudices on the subject of population bear a very striking resemblance to the old prejudices about specie; and we know how slowly and with what difficulty these last have yielded to juster conceptions. Politicians, observing that states which were powerful and prosperous were almost invariably populous, have mistaken an effect for a cause, and have concluded, that their population was the cause of their prosperity, instead of their prosperity being the cause of their population; as the old political economists concluded that the abundance of specie was the cause of national wealth, instead of being the effect of it. . . . The folly of endeavouring by forcible means to increase the quantity of specie in any country, and the absolute impossibility of accumulating it beyond a certain level by any human laws that can be devised, are now fully established and have been completely exemplified in the instances of Spain and Portugal. But the illusion still remains respecting population; and under this impression almost every political treatise has abounded in proposals to encourage population, with little or no comparative reference to the means of its support. Yet surely the folly of endeavouring to increase the quantity of specie in any country, without an increase of the commodities which it is to circulate, is not greater than that of endeavouring to increase the number of people, without an increase of food which is to maintain them; and it will be found that the level, above which no human laws can raise population of a country, is a limit more fixed and impassable than the limit to the accumulation of specie.[2]

In differing with Smith on bounties and the corn laws, he bases his arguments on expediency rather than on a different philosophy. He admits that systems of restriction are "essentially unsocial" and that, "in reference to the interests of a particular state, a restriction upon the imposition of foreign corn may sometimes be advantageous" but he felt

> still more certain that in reference to the interests of Europe in general the most perfect freedom of trade in corn, as well as in every other commodity, would be the most advantageous. Such a perfect freedom, however, could hardly fail to be followed by a more free and equal distribution of capital,

[2] Malthus, Thomas Robert, *An Essay on the Principle of Population* (Everyman ed.; New York: E. P. Dutton & Co.), Vol. II, p. 141–42.

which, though it would unquestionably render some parts of it poorer and less populous than they are at present; and there is little reason to expect that individual states will ever consent to sacrifice the wealth within their own confines to the wealth of the world. . . . .

A perfect freedom of trade therefore is a vision which is to be feared can never be realised. But still it should be our object to make as near approaches to it as we can. It should always be considered as the great general rule. And when any deviations from it are proposed, those who propose them are bound clearly to make out the exception.[3]

Bounties. His specific support of the corn laws and his disagreement with Smith may be stated as follows: Bounties, in spite of objections to them on general grounds, do, when imposed on corn "produce an exportation which would not otherwise have taken place," and this must "unquestionably encourage an increased growth of corn in the countries in which they are established, or maintain it at a point to which it would not otherwise have attained."[4] He believed that Smith erred in arguing that the extension of the foreign market was at the expense of the home market since the retention of the corn at home in absence of an export bounty would not mean an extension of the market but rather the sale of more in the same market as the result of a lower price. This lower price would mean increased consumption, but increased consumption would not give the same encouragement to cultivation as does foreign demand. Malthus also denied that the bounty was a double tax, first, in the form of a tax to give the government the wherewithal to pay the bounty and, second, in the higher price paid for the lesser amount of corn in the domestic market. He argued that both would not hold at the same time.

Restrictions on Importation. Malthus' views on the restrictions on foreign grain were tempered by the end in view:

The laws which prohibit the importation of foreign grain, though by no means unobjectionable, are not open to the same objections as bounties, and must be allowed to be adequate to the object they have in view—the maintenance of an independent supply. A country with landed resources which determines never to import corn but when the price indicates an approach towards a scarcity, will necessarily, in average years, supply its own wants. Though we may reasonably therefore object to restrictions upon the importation of foreign corn, on the grounds of their tending to prevent the most profitable employment of the national capital and industry to check population, and to discourage the export of our manufacture; yet we cannot deny their tendency to encourage the growth of corn at home and to procure and maintain an independent supply.[5]

---

[3] *Ibid.*, pp. 124–25.
[4] *Ibid.*, p. 109.
[5] *Ibid.*, p. 111.

Emigration. In addition to Malthus' well-known discussion of the positive and preventive checks on population, he considers the efficacy of emigration. This he finds to be an expedient "both useful and proper," yet "partial and temporary." It cannot lead to depopulation, he believes, because the mass of mankind is unwilling to move. Hence, "if it cannot be proved that governments are bound actively to encourage it, it is not only strikingly unjust, but in the highest degree impolitic in them to prevent it." Of course, in fairness to the mercantilists, it should be emphasized that their primary concern was not so much to prevent general emigration as emigration of skilled artisans who might set up rival industries in other lands.

Territorial Division of Labor. Malthus' concern for sufficient food for a country's population prevented him from agreeing to territorial division of labor carried to such a degree as to make some countries almost exclusively agricultural and others predominantly manufacturing and commercial, thereby leading to a dangerous dependency. He advocated rather the "peculiar advantages which attend a system in which they (the agricultural and commercial systems) are united and flourish together."[6] But he does not recognize very closely what he calls the "comparative advantages, either natural or acquired that may exist as between countries."[7] He did see, however, that high wages are not necessarily a bar to exportation when they accompany high productivity:

> If in any country, by means of capital and machinery, one man be enabled to do the work of ten, it is quite obvious that before the same advantages are extended to other countries a rise in the price of labour will but very little interfere with the power of selling those sorts of commodities in the production of which the capital and machinery are so effectively applied.
>
> It is obvious then that a country, notwithstanding a high comparative price of labour and of materials may easily stand a competition with foreigners in those commodities to which it can apply a superior capital and machinery with great effect; although such a price of labour and materials might give an undisputed advantage to foreigners in agriculture and some sorts of produce, where the same saving of labour cannot take place. Consequently such a country may find it cheaper to purchase a considerable part of its supplies of grain from abroad with its manufactures and peculiar products than to grow the whole at home.[8]

DAVID RICARDO

David Ricardo (1772–1823). With the work of David Ricardo, the theories of international trade were brought together into an integrated whole. Laissez faire became the dominant theme much as the philosophy

[6] *Ibid.*
[7] *Ibid.*, p. 118 n.
[8] *Ibid.*, p. 98.

of restriction had served as the basis for mercantilism. Ricardo was a London stockbroker, financier, country gentleman, and member of Parliament, who had accumulated a fortune in his youth which made him "one of the wealthiest men in all Europe." He first read the *Wealth of Nations* in 1799 and even then, "by the merest accident." His book, *The Principles of Political Economy and Taxation*, appeared in 1817 at a time when the question of the corn laws was a burning one in Great Britain. The manufacturing interests sought their abolition on the assumption that cheaper food would keep down wages and thus enable a more favorable competitive position for English goods in the international market. The landowning classes, however, sought their retention on the assumption that a high price for grain would keep up rents and enhance land values. A second important controversy, and one which led Ricardo to appear in print as an economist for the first time, involved the suspension of specie payment by the Bank of England beginning in 1797 because of the war with France. This suspension brought in its train a number of results which threw light on the monetary side of international trade and influenced the reasoning of Ricardo and his followers.

Ricardo was not intent on reopening the question of mercantilism or even on covering the wide field represented by the *Wealth of Nations.* His primary interest was in the field of distribution, but in his analysis he considered enough of Smith's views to enable us to understand his general attitude toward mercantilism, governmental interference in economic life, and commercial policies.

General Attitude toward Mercantilism. Ricardo accepted Smith's general indictment but phrased his own criticisms in terms of price enhancement:

> The injurious effects of the mercantile system have been fully exposed by Dr. Smith; the whole aim of that system was to raise the price of commodities in the home market by prohibiting foreign competition; but this system was no more injurious to the agricultural classes than to any other part of the community. By forcing capital into channels where it would not otherwise flow, it diminished the whole amount of commodities produced. The price, though permanently higher, was not sustained by scarcity, but by difficulty of production; and therefore, though the sellers of such commodities sold them for a higher price, they did not sell them, after the requisite quantity of capital was employed in producing them, at higher profits.
>
> The manufacturers themselves as consumers, had to pay an additional price for such commodities, and, therefore, it cannot be correctly said that "the enhancement of price occasioned by both (corporation laws and high duties on the importations of foreign commodities) is everywhere finally paid by the landlords, farmers, and labourers of the country."
>
> It is the more necessary to make this remark as in the present day the authority of Adam Smith is quoted by country gentlemen for imposing similar high

duties on the importation of foreign corn. Because the cost of production, and, therefore, the prices of various manufactured commodities, are raised to the consumer by one error in legislation, the country has been called upon, on the plea of justice, quietly to submit to fresh exactions. Because we pay an additional price for our linen, muslin, and cottons, it is thought just that we should pay also an additional price for our corn. Because, in the general distribution of the labour of the world, we have prevented the greatest amount of productions from being obtained by our portion of that labour in manufactured commodities, we should further punish ourselves by diminishing the productive powers of the general labour in the supply of raw produce. It would be much wiser to acknowledge the errors which a mistaken policy has induced us to adopt, and immediately to commence a gradual recurrence to the sound principles of a universally free trade.[9]

Territorial Division of Labor and Comparative Costs. "It is quite as important to the happiness of mankind that our enjoyments should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate, and its other natural or artificial advantages it is adapted, and by their exchanging them for the commodities of other countries. . . . ." Ricardo strengthens this reasoning by an appeal to an illustration which since has become familiar to our subject. Suppose that two men can both make shoes and hats, but that one of the men is superior to the other in both trades. In making hats, however, he can only exceed his competitor by 20 per cent, while in making shoes he can surpass him by 33 per cent. "Will it not be for the interest of both," he asks, "that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats?" The reader will recall that Adam Smith used a similar illustration to suggest that a shoemaker, a tailor, and a farmer should each confine himself to his particular trade and does not introduce the question of choice with the possibility that each could do the work of the other but with varying degrees of success. Smith's reasoning, then, stopped with an absolute advantage that one producer has over another, while Ricardo progressed to a doctrine of comparative advantage in production.

In language very similar to that of Smith, Ricardo goes on to say:

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantages is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations through-

---

[9] Ricardo, David, *The Principles of Political Economy and Taxation* (Everyman ed.; New York: E. P. Dutton & Co.), pp. 212–13.

out the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

The Benefit of Foreign Trade. Ricardo laid down a principle that the value of imports is measured by the quantity of domestic goods given in exchange for them. Accordingly, "No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments."[10] This value theory differs from that which he held for domestic products which he believed exchanged for each other on the basis of the relative quantities of labor required to produce them. It follows, then, that, while the labor of 100 Englishmen embodied in a good cannot be exchanged for that of 80 Englishmen, it might be exchanged for the produce of "80 Portuguese, 60 Russians, or 120 East Indians." The contributing cause was the relative mobility of capital within a country and the immobility between countries.

Population. Ricardo admired Malthus' *Essay on Population* and emphasized the economic aspects of the problem. The funds available for the support of labor (a wages' fund theory now no longer held) was the regulator of population, and when population became superabundant one of two things had to happen: population had to be reduced or the funds for its support would have to be accumulated more rapidly. He regarded the Poor Laws as evils draining society of its net revenue and interfering with laissez faire. On the other hand, he taught that the best security against a superabundant population was for the laboring classes to have "a taste for comforts and enjoyments"—a condition to be brought about by the laborers themselves but to be "stimulated by all legal means in their exertions to procure them."

The Use of Bounties. A casual reading would make it seem that Ricardo disagreed with Smith on the use of bounties to encourage exports—particularly exports of corn. Ricardo wrote, for example, "Perhaps in no part of Adam Smith's justly celebrated work are his conclusions more liable to objection than in the chapter on bounties." Ricardo's disagreement, however, did not rest so much on Smith's analysis of the bounty, per se, but rather on the tie-up with corn—a commodity that Smith had set in a class by itself much as some mercantilists had done to treasure. By regarding corn as a measure of value, as well as the food of the people, and therefore the determiner of wages and the prices of other commodities, Smith had reached conclusions which were untenable on the part of Ricardo who did not give to corn the same importance. Their disagreement, then, lay in the field of value and natural price rather than in the field of the bounty in terms of foreign trade.

---

[10] *Ibid.*, p. 77.

Freedom of Trade. In the same mood as Smith, Ricardo wrote about the evils of government interference:

> The sole effect of high duties on the importation, either of manufactures or of corn, or of a bounty on their exportation, is to divert a portion of capital to an employment which it would not naturally seek. It causes a pernicious distribution of the general funds of the society—it bribes a manufacturer to commence or continue in a comparatively less profitable employment. It is the worst species of taxation, for it does not give to the foreign country all that it takes away from the home country, the balance of loss being made up by the less advantageous distribution of the general capital.[11]
>
> A freedom of trade is alone wanted to guarantee a country like Britain, abounding in all the varied products of industry, in merchandise suited to the wants of every society, from the possibility of a scarcity. The nations of the earth are not condemned to throw the dice to determine which of them shall submit to famine. There is always abundance of food in the world. To enjoy a constant plenty we have only to lay aside our prohibitions and restrictions, and cease to counteract the benevolent wisdom of Providence.[12]

In the case of colonial trade, as well, freedom is most conducive to the best employment of the labor and the resources of the world. But, while Smith believed that a restrictive system harmed both the mother-country and the colonies, Ricardo argued that the mother-country might sometimes be benefited.

Treasure and the Theory of Gold Movements. Not only did Ricardo believe that international trade should be left to pursue its own course, but he also believed that the means of payment should remain unrestricted as well. Following Smith and others, he regarded gold and silver like any other commodities. Even their general selection as the medium of exchange did not elevate them above others for special treatment or regulation by governments: "They are, by the competition of commerce, distributed in such proportions amongst the different countries of the world as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter."[13] With gold (or silver) thus regarded as a medium of exchange instead of a mercantilistic goal or an end in itself and therefore incidental to the goods and services constituting international trade, Ricardo's study had to do with what caused goods and services to move from one country to another.

If left alone, "gold and silver, like all other commodities, naturally seek the market where the best price is given for them; and the best price is commonly given for everything in the country which can best afford it."

[11] *Ibid.*, p. 210.

[12] Ricardo's article on "Corn Laws and Trade," quoted as a footnote in *The Principles of Political Economy and Taxation*, p. 213.

[13] *Ibid.*, pp. 83–84.

The mechanism by which gold moved if unrestricted has become known as the "Ricardian theory of gold movements," although researches such as those of Professor Viner show that the elements of the theory were rather well stated by earlier writers. It must also be remarked that, although we call it a "theory," Ricardo and his followers stated it as a fact.

The theory rests in part on another that has come to be known as the "quantity theory of money"—a theory which points to the relationship between the amount of money in a community and the value of that money. In other words, as the amount of money increases, its value or purchasing power decreases; or, put in another way, prices rise. Whatever criticisms there may be in accepting such a theory today when credit constitutes the greatest percentage of purchasing power, we must be willing to picture the possibilities of the truth of the theory in any earlier period of history when the metals really were the important means of payment and when mercantilistic policy preached accumulation within and erected barriers against its exportation. Certainly no one can read Professor Hamilton's *American Treasure and the Price Revolution in Spain,* to which we have referred earlier, without realizing that the accumulation of treasure did influence price. Even in Ricardo's day when restriction was an emergency policy rather than normal policy, the quantity of gold must have borne a closer causal relationship to its value than is apparent in a credit economy.

For purposes of illustrating the theory of gold movements, let us picture, with Ricardo, a simplified trade relationship between two countries, England and Portugal, wherein England is an exporter of cloth and an importer of wine while Portugal occupies the other position—that of an exporter of wine and an importer of cloth. Now, let us suppose further that this established relationship growing out of national advantages is disturbed because England, through a new process, finds herself able to produce wine—no changes having taken place in Portugal. England will divert some of the capital hitherto used in foreign trade to the making of wine. So long as the Portuguese can obtain their cloth more cheaply by buying it from England, they will continue to do so; but, obviously, they will not be able to pay for it in wine since England is now producing her own. Suppose that Portugal pays in gold: As the gold leaves Portugal, that is, as her quantity becomes less, her prices will fall, while the reverse process will be taking place in England. This will continue until the price of English cloth will rise to a point at which Portugal will not find it profitable to buy English cloth, and trade in wine and cloth will cease. Broadening this illustration by recognizing that more than these two commodities enter into the trade and that during the process other commodities as well as gold will be exported as their prices become more favorable, it is argued that this will prevent "so great an effect from

taking place on the value of money in the two countries as might otherwise be expected." Then, too, trade is rarely confined to two countries. Hence, gold movements will take place toward the cheaper markets, and, as a result, "commodities will regain their usual level, and those fitted for foreign markets will be exported as before."

As a result of gold movements, each country will obtain "precisely the quantity of money which it ought to have." This does not mean that the money will have the same value in each country, but it does mean that the exchange will be at par—that is, the estimation of the value of the currency of one country in terms of the currency of the other.

Ricardo noted other influences on the value of money—accumulation from the discovery of a new mine or from the abuses of banking which will have the "ultimate effect" of raising "the prices of commodities in proportion to the increased quantity of money." Bounties and new taxes in so far as they encourage exportation or importation will likewise influence the value of money—an influence which will be felt "not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world." Some influence will also be exerted by the improvements and superiority in the manufacturing processes of one country as compared with those of another, while the distance from gold and silver mines as well as the improvements in the working of mines are causes contributing to the value of money.

Any interference with the freedom of gold movements, then, which Smith had regarded as "very highly prejudicial to the manufactures and foreign commerce" of a country, was likewise condemned by Ricardo, although he seemed less concerned either because he did not face the extreme mercantilistic theory as Smith had done or else because he looked upon the "possible variations of the exchanges" to counterbalance the effect of the high prices resulting from the forcible stoppage of the current of money.[14]

JOHN STUART MILL

John Stuart Mill (1806–73). John Stuart Mill, philosopher and economist, was associated with the East India Company for thirty-five years as an employee and Examiner of India Correspondence. He witnessed much of the industrial revolution, the workings of laissez faire, the evils of the factory system, the rise of socialism, the questioning of the teachings of the classical school of economics, and the spread of protectionism. In the realm of commercial policy, he was able to write: "The principle of the Mercantile Theory is now given up even by writers and governments who still cling to the restrictive system." By "restrictive system" he meant protectionism or "the prohibition, or the discouragement by

[14] *Ibid.*, pp. 91, 152.

heavy duties, of such foreign commodities as are capable of being produced at home." He recognized that "the interests of national subsistence and of national defence" were greater than "mere saving of labour." Accordingly, he recognized the usefulness of the English navigation laws on grounds of political expediency, even though he regarded them as "economically disadvantageous." He insisted, however, that England no longer needed them and that they were therefore an "invidious exception to the general rule of free trade."[15] Mill was contemptuous of elaborate laws for the sake of subsistence, holding that that country was safest which drew its food supply from the largest area and that the chances of a country ever being engaged in war with all other countries or blockaded like a town were improbable. He held, however, that in times of scarcity a country could not be blamed for erecting barriers against exportation of food.

Prohibitions and Protective Duties. Prohibitions and prohibitive duties were condemned by Mill, who argued that their imposition tended to "render the labour and capital of the country less efficient in production than they would otherwise be," thus, constituting a waste of labor and capital and a "sheer loss to the country as well as to the consumer." This conclusion was the logical outgrowth of his theory that the benefit of foreign trade lay in imports, while the mercantilists and even Smith, to some extent, emphasized the exports. Mill, likewise, objected to interferences with trade because he regarded trade as the means of obtaining products more cheaply; as an incentive to the spread of division of labor with its attendant benefits; as a way of bringing about "a sort of industrial revolution" in backward countries by awakening wants and a spirit of emulation in their people; and, finally, as the "principal guarantee of the peace of the world." In connection with this last-mentioned benefit of commerce, he wrote: "Commerce first taught nations to see with good will the wealth and prosperity of one another. Before, the patriot, unless sufficiently advanced in culture to feel the world his country, wished all countries weak, poor, and ill-governed, but his own: he now sees in their wealth and progress a direct source of wealth and progress to his own country. It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it."[16] Mill was not the first to place his faith in international commerce, and he will not be the last. What is wishful thinking today must ultimately prove to be reality!

Mill's Attitude toward a Revenue Tariff. Mill regarded protectionism as declining and pictured a revenue tariff as "a sort of compromise

[15] Mill, John Stuart, *Principles of Political Economy* (Ashley ed.; New York: Longmans, Green & Co., 1929), Book V, chap. x, p. 920.

[16] *Ibid.*, Book III, chap. vii, pp. 579–82.

between free trade and restriction" which incidentally afforded some protection. The objection to such a tariff imposition, however, was this: "Revenue is received only on the quantity imported, but . . . . the tax is paid on the entire quantity consumed. To make the public pay much that the treasury may receive a little, is no eligible mode of obtaining a revenue." He also saw an inconsistency in such a tax in that, in so far as it afforded protection, it cut down importation and lessened revenue, while to the degree that it afforded revenue it was not giving very much protection.[17]

The Infant-Industry Argument. As Viner has shown, Mill did not originate the infant-industry argument for a protective tariff. The former traces its probable origin to a statement made as early as 1645: "Those immunities which were granted in the infancy of trade, to incite people to the increase and improvement of it, are not so proper for these times, when the trade is come to that height of perfection, and that the mystery of it is so well known. . . .[18] According to Mill, "The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country." The advantage that one nation has over another in a particular industry might only be the result of an earlier start which has given it a supply of skilled workmen:

> A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which are earlier in the field: and besides, . . . nothing has a greater tendency to promote improvements in any branch of production than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, might [will, in the original edition of 1848] sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But it is essential that [the words "it is essential that" were inserted in the edition of 1871] the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing.[19]

Ashley and others have pointed out that Mill did not realize the force of this concession to protectionism. Ashley regarded it as knocking "the

---

[17] *Ibid.*, Book V, chap. x, pp. 921–22.

[18] Viner, Jacob, *Studies in the Theory of International Trade* (New York: Harper & Bros., 1937), p. 71.

[19] Mill, *op. cit.*, Book V, chap. x, p. 922.

bottom out of Adam Smith's doctrine as one of universal validity" (assuming that Smith had universal validity in mind), while John Bright of Corn Law League fame felt that this one paragraph by Mill was capable of causing more injury than all the rest of his writings could do good. But it is questionable whether Mill's concession gave any greater aid and comfort to protectionism than did Smith's recognition that defense is more important than opulence.

Mill's view on the infant industry was frequently quoted especially in the newer countries such as the United States, Australia, and Canada. Writing to a friend in 1869, Mill expressed an intention to "withdraw" this opinion: "Even on this point I continue to think my opinion was well grounded, but experience has shown that protectionism, once introduced, is in danger of perpetuating itself . . . . and I therefore now prefer some other mode of public aid to new industries, though in itself less appropriate."[20] This view accounts for the two changes indicated in the quotation above.

We shall see presently that the two concessions—defense needs and infant industries—were frequently put together in a joint argument for protection especially since each succeeding war draws upon more and more industries and services. Almost any industry can thus build up a claim for protection.

Mill on Colonies and Population. The views of Mill on the subjects of colonies and population were similar to those of Ricardo. A country, by insisting on a monopoly of its colonial trade, could secure to itself "an extra foreign demand for its commodities" and thereby gain some advantage. But such legislation causes the industry and capital of the colony to be diverted from some channels into other channels—hence, constituting a loss to productive powers of the world while "the mother country does not gain so much as she makes the colonies lose."

Mill argued that just as it might be good pecuniary speculation to carry goods from where they are abundant to where they are scarce, it is likewise good to export labor and capital from old countries where their productive power is less to new regions where it is greater. Like Malthus, he taught that emigration as a voluntary principle has little effect on the population pressure at home, though it does help the colony. Emigration to be effective called for mass movements financed by government. Here Mill allows a departure from the principle of laissez faire.

Mill on Treasure and Gold Movements. Gold enters international trade both in the form of a commodity and as a medium of exchange. As a commodity, it is subject to the general principle of demand. As money, it is to commerce "only what oil is to machinery, or railways to locomotion—a contrivance to diminish friction." Furthermore, "all in-

[20] *Ibid.*, Ashley Appen., pp. 1002–3.

terchange is, in substance and effect, barter: whoever sells commodities for money, and with that money buys other goods, really buys those goods with his own commodities. And so of nations: their trade is a mere exchange of exports for imports; and whether money is employed or not, things are only in their permanent state when exports and imports exactly pay for each other."

Mill likewise has the theory of gold movements, although, as in the case of Ricardo, he regarded it as a fact rather than a theory. It may be stated briefly, as follows: An equilibrium of trade between two nations is disturbed by an improvement which takes place in the making of an article and its price falls. This causes a foreign demand for it, and the equilibrium is disturbed. The exchanges react, and money flows into the exporting country, causing prices to rise. This higher price range checks the demand for the country's products. Accompanying this checking of exports will be the larger supply of money which will encourage imports. These factors will bring about an equilibrium. Mill carries through the same analysis in the instance of the relationship that is disturbed by the payment of funds not originating in commerce but rising out of a tribute payment by one nation to another, interest to foreign creditors, or for some similar reason.

ALFRED MARSHALL

Alfred Marshall (1842–1924). Alfred Marshall, whose life spanned the last thirty-one years of that of John Stuart Mill as well as the first quarter of the twentieth century, witnessed the culmination of most of the movements which were beginning or had made some headway in the time of Smith, Ricardo, and Mill. He was also aware of the criticisms of classical theory at the hands of fellow-Englishmen and American and Continental writers. In the realm of international trade, Marshall had little to add to that left by his predecessors. This was due to the fact that England was on a free trade basis and far removed from the arena of protectionist controversy, protection to young industries, and so on. Quite naturally, then, the mantle of the classical writers in the realm of international trade fell not on the shoulders of Marshall but rather on those of Professor Frank William Taussig of Harvard University, who in 1883, just ten years after Mill had died, published his *Protection to Young Industries in the United States*—the first of a long series of books and articles which have become classic in the field.

Marshall's Generalizations on His Predecessors. Marshall, who was professor of political economy at Cambridge University for twenty-three years, develops the argument that the English economists agreed with one another and for want of strong opposition became dogmatic and, further, that, in order to make themselves understood by the public,

they omitted qualifying clauses. As a result, their teachings sometimes give the impression that they were intended to be universal in their application. Since free trade was clearly to England's interest, "any Englishman who attempted to point out that there was some force in some of the arguments which were adduced in favor of Protection in other countries, was denounced as unpatriotic." Marshall then compares public opinion in England to the savage monarch who puts to death the messenger that comes to tell him the foe is advancing. This helps to explain the attack on Mill, who saw some truth in the protectionist teachings when applied to new countries. The English writers also made an error in repeating the same old arguments against protectionists, and the latter, not considering themselves fairly met, concluded their case was the strongest. The American people, too, began to have some doubt as to the soundness and even the moral honesty of English economics.[21]

Marshall on Free Trade and Protection. Marshall, accordingly, wanted to avoid these pitfalls. Testifying before a parliamentary committee in 1903, he said:

> I for one was so impressed by those arguments of Carey and his followers, which had found scarcely an echo in English literature, that I went to the United States in 1875 to study the problems of national industry and international trade from the American point of view; and I was quite prepared to learn, not indeed that the American system was applicable to England, but that it might contain ideas capable of adaptation to English conditions.
>
> I came back convinced that a protective policy, in fact, was a very different thing from a protective policy as painted by sanguine economists, such as Carey and his followers. . . .[22]

Subsequent observation strengthened his convictions. He found that the policy in action made for intricacy and corruption but apparently had not harmed the United States because of its size and natural resources. In fact, it had probably aided a few industries which needed help, thereby balancing the economic loss though not the moral injury. In granting the infant-industry argument, Marshall states: "It is conceivable that the protection, which such taxes give, is of greater national benefit than the protection which they destroy."[23] By "protection" as he uses it the second time, he means the protection to domestic consumers against unduly high prices through the competition of imported goods. Marshall believed also that Germany had been harmed by the protective policy and that England had best maintain free trade lest she invite retaliation.

---

[21] Marshall, Alfred, *Industry and Trade* (London: Macmillan & Co., Ltd., 1927), Appen. E, pp. 759–62.

[22] "Memorandum on Fiscal Policy of International Trade," *Official Papers* (London: Macmillan & Co., Ltd., 1926), p. 393.

[23] Marshall, Alfred, *Money, Credit, and Commerce* (London: Macmillan & Co. Ltd., 1929), p. 210.

According to Marshall, British economists did not condemn all import duties but only those levied in an inconvenient way, as, for example, those on raw materials and those which were unjust because pressing heavily on the poor. They also objected to those which were wasteful. In this class they placed differentials—that is, taxes imposed on imported products not balanced by a corresponding tax on similar domestic products. But even here, they granted that such a levy may have "political or even indirect economic advantages which outweigh that waste."[24] Such a tax raises the total cost to the people, "while the Revenue reaps comparatively little gain from their sacrifice. The Exchequer, with hunger but little appeased is likely to attack other imports." Furthermore, a tax which keeps out £10,000 of imports probably will cause a loss of a market for £10,000 of exports.[25]

While not condemning all tariffs, then, Marshall favored free trade as a general principle because it had the merits of not being a "system" and, therefore, was simple. In addition, in so far as England was concerned, there was no reason for changing its policy. These views, it must be remembered, were expressed in 1903 when the Chamberlain movement for a tariff centered English discussion on this problem.

Tariff Incidence. "There has . . . . never been a country," Professor Marshall tells us, "the whole of whose exports were in such urgent demand abroad, that she could compel foreigners to pay any large part of any taxes which she imposed on her imports."[26] Ordinarily, a tax on imports falls on the consumer whose only chance to escape its full force is to lessen his consumption or obtain the goods more favorably through some other channel. But there are some cases conceivable where the producer bears a part of the burden. A producer whose sales fall off because of the increased cost to the consumer because of the tax may be said to bear some of its burden. Likewise, the sudden imposition of duties may force the producer to bear a part of them; but this is a practice which Marshall compares to springing a hard bargain and an "undignified action" which brings "its own nemesis." Or, again, a country that is the principal purchaser of a commodity for which the other country has a special aptitude might be able to force the producing country to bear the burden of a tax over a considerable period.[27]

Private versus Public Interest. Marshall mentions the great truth that

> the importation of goods which can be produced at home does not in general displace labour, but only changes the direction of employment. Of course, any

[24] *Ibid.*, p. 211.
[25] *Ibid.* p., 212.
[26] *Ibid.*, p. 192.
[27] *Ibid.*, p. 176; *Official Papers,* pp. 376–77.

violent change is, to some extent, an evil; but there is a strong *prima facie* possibility that if the business men of a country, when left to follow their own judgment, decide that it would be more costly to make certain goods at home than to import them in exchange for other home-produced goods for which there is a foreign demand, their judgment is right. Unfortunately, however, when those in the industries, with which the imported goods compete, set themselves to persuade the public and Government that a protective import duty should be levied, their private interests are at a great strategic advantage in competing with those of the public. For it is possible to point to the particular places in which additional employment would be given by the tax. It is easy to find out the particular employers and workmen whose profits and wages would be raised by it; to invite the employers to subscribe to a "campaign fund" on its behalf; and to urge both employers and employed to exert all the political influence, direct or indirect, which they possess, in putting pressure on the Legislature in their favor. Good strategy prompts that as much as possible of the argument and appeal in the special interests of any one industry should come, not from those who have a direct stake in that particular industry, but from others who have a "log-rolling" understanding with them. . . .[28]

SUMMARY

The years which followed the publication of the *Wealth of Nations* saw a wide acceptance of its teachings both in the continental countries and in England. The English classical economists developed the Smithian concepts further and offered various refinements on the theory of trade since they felt that mercantilism itself required no further analysis.

Malthus saw certain evils in a large population. He supported bounties on corn from a population point of view and questioned the dangerous dependency to which territorial division of labor might lead. He had some realization of the fact that high wages are not necessarily a bar to exportation when they accompany high productivity.

Ricardo brought together the theories of international trade into an integrated whole. Laissez faire became the theme of international trade much as restriction had been that of mercantilism. He emphasized the benefits of the territorial division of labor and pictured the value of imports in terms of the quantity of domestic goods given in exchange for them. His views on population were intermediate between the optimism of Smith and the pessimism of Malthus. He differed with Smith on bounties in a technical sense. He wanted a hands-off policy on treasure and laid down what has been called since the "Ricardian theory of gold movements."

Mill saw little chance of a country ever being at war with all other countries or blockaded like a town. Hence, he believed in a high degree of free trade and the drawing of a food supply from the greatest area

[28] *Official Papers*, pp. 389–90.

possible. He condemned prohibitions and prohibitive duties. He questioned revenue tariffs on the ground that they yielded the government less than they took out of the pockets of consumers. He recognized the infant-industry and national-defense arguments for the tariff. He followed the reasoning of Ricardo on gold.

Marshall granted the infant-industry argument. Living in free-trade England, he argued for the simplicity of the free-trade doctrine, but did not condemn all tariffs. He was far less critical of the theory of protection than he was of its practice in the United States.

QUESTIONS FOR DISCUSSION

1. What is meant by classical economic theory? What is the purpose of studying classical theory of international trade?
2. What assumptions underlay the laissez faire philosophy of the classical economists?
3. Compare the views of Malthus and Smith with respect to population and food. On what grounds did Malthus support bounties on the exportation of corn? Does it seem inconsistent to you that Malthus should have been worried by the failure of the food supply to keep pace with expanding population and, at the same time, supported bounties on the exportation of grain and restrictions on its importation? Explain.
4. What is the difference between "absolute advantage" and "comparative advantage" in relation to international trade?
5. How do you account for the difference between the views of Smith and Ricardo on the question of bounties?
6. Explain the Ricardian theory of gold movements, pointing out its relationship to the quantity theory of money. How does this theory attempt to explain the tendency toward equilibrium between imports and exports?
7. John Stuart Mill's objection to a revenue tariff was that "revenue is received only on the quantity imported, but . . . . the tax is paid on the entire quantity consumed." Explain.
8. What is the infant-industry argument for protective tariffs? What are the dangers inherent in the acceptance of this argument? Did Mill recognize these?
9. What comments did Alfred Marshall have to make on the incidence of tariffs?

CHAPTER X

THE POLICY OF PROTECTION: HAMILTON AND LIST

ALEXANDER HAMILTON

Hamilton's *Report on Manufactures*. It is not surprising that within sixteen years after Smith had written the greatest presentation of the doctrine of free trade, Alexander Hamilton (1757–1804) should have produced a report which Professor Taussig has called "the strongest presentation of the case for protection which has been made by any American statesman." Some of the leading American statesmen had developed protectionist leanings, while changing conditions caused the period to be receptive to that part of mercantilism, at least, which called for encouragement to industry. Hamilton's task, in a way, was not unlike that of Adam Smith. While Smith was faced with the problems of showing the fallacies of mercantilism and the benefits of freer trade without falling into the errors of physiocracy, Hamilton had to overcome a rather widespread popular acceptance of laissez faire in a country overwhelmingly agricultural and rescue certain phases of mercantilism without reviving the system as a whole.

The Structure of the Report. Hamilton's *Report on Manufactures*[1] appeared in 1791 in response to a Congressional resolution of the previous year. The reader of the *Report* cannot fail to be impressed by its logical structure and by the skillful manner in which divergent opinions are woven together into an acceptable synthesis. It begins with an attempt to refute the physiocratic doctrine, which placed emphasis on agriculture at the expense of commerce and industry, by showing that manufacturing contributes to and augments the produce and revenue of society. This comes about through division of labor, extension of the use of machinery, giving employment to classes of the community not ordinarily engaged in business, promoting emigration from foreign countries, furnishing a greater scope for the diversity of talents and dispositions which discriminate men from each other, affording a more ample and varied field for enterprise, and creating in some instances a new (and securing in all a more certain and steady) demand for the surplus produce of the soil.

[1] *American State Papers*, Series Finance (Washington, 1832), Vol. I. Reprinted in full in Taussig, F. W., *State Papers and Speeches on the Tariff* (Cambridge, Mass.: Harvard University Press, 1893). All excerpts are taken from this report.

Similarity to the *Wealth of Nations*. In his analysis, Hamilton practically repeats the basic arguments used by Adam Smith in his *Wealth of Nations*. More than that, even the language and expressions used by the two men are very much alike. Smith, for example, remarks that division of labor, "by reducing every man's business to some one simple operation, and by making this operation the sole employment of his life, necessarily increases very much the dexterity of the workman." Hamilton, in turn, speaks of the "greater skill and dexterity naturally resulting from a constant and individual application to a single object." Smith, again, states:

> This great increase of the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.

Hamilton refers to these same three points and in the same order.

Agreement with Smith. In a general way, and subject to the dangers of general statements, it may be said that Hamilton agrees with Smith on the shortcomings of physiocracy, on the wealth-producing powers of manufacturing and its favorable and complementary relationship with agriculture, on the mistakes of mercantilism, on the evils of monopoly, and on the benefits of free trade. Both see a limitation on free trade in a world where the majority of the countries refused its acceptance. They agree on the usefulness of premiums; and, with some qualifications, they have the same attitudes toward free trade in raw materials and the prohibition of their export, as well as toward the granting of drawbacks.

Disagreement with Smith. Their real antagonism comes, of course, on the subject of the protective tariff and the related system of bounties. Smith, it may be recalled, admits the case for the protective tariff for building up industries needed for national defense and for retaliatory purposes to bring other countries to terms. In addition, he recognized the use of a duty to offset the burden of a domestic tax and its retention pending gradual reduction in cases where the industries had been receiving such protection.

Hamilton, while not basing his case for protection on any of these grounds, could have easily done so. Instead, he says nothing about the defense angle, although coming rather close to the principle of retaliation when he suggests that the United States must undertake protection in order to compete with other countries already employing that policy against the United States. He does not invent new arguments for pro-

tection so much as he answers the arguments of those who believed that the new nation was unfitted for industry. He does not advocate new principles and policies so much as he argues skillfully for the extension of existing ones.

Manufactures Aid Agriculture. In discussing his claim that manufacturing will create a new, and secure a more certain and steady, demand for the surplus produce of the soil, he is arguing, as Smith did, that the physiocratic philosophy should not be followed to the extreme of restricting industry:

> It is a primary object of the policy of nations to be able to supply themselves with subsistence from their own soils; and manufacturing nations, as far as circumstances permit, endeavor to procure from the same source the raw materials necessary for their own fabrics. This disposition urged by the spirit of monopoly, is sometimes even carried to an injudicious extreme. It seems not always to be recollected that nations who have neither mines nor manufactures can only obtain the manufactured articles of which they stand in need by an exchange of the products of their soils; and that if those who can best furnish them with such articles are unwilling to give a due course to this exchange, they must of necessity make every possible effort to manufacture for themselves; the effect of which is, that the manufacturing nations abridge the natural advantages of their situation through an unwillingness to permit the agricultural countries to enjoy the advantages of theirs, and sacrifice the interests of a mutually beneficial intercourse to the vain project of selling everything and buying nothing.

As a result of this type of consideration, Hamilton concludes that "it is the interests of nations to diversify the industrious pursuits of the individuals who compose them; that the establishment of manufactures is calculated not only to increase the general stock of useful and productive labor, but even to improve the state of agriculture in particular; certainly to advance the interests of those who are engaged in it." We have here the essence of the home market argument: "A domestic market is greatly to be preferred to a foreign one."

The Position of the United States. Hamilton then considers the argument that a country which is still unpeopled should not seek to establish manufactures. But he says:

> If the system of perfect liberty to industry and commerce were the prevailing system of nations, the arguments which dissuade a country in the predicament of the United States from the zealous pursuit of manufactures would, doubtless, have great force . . . . but the system which has been mentioned is far from characterizing the general policy of nations. The prevalent one has been regulated by an opposite spirit. The consequence of it is that the United States are, to a certain extent, in the situation of a country precluded from foreign commerce. They can indeed, without difficulty, obtain from abroad the

manufactured supplies of which they are in want, but they experience numerous and very injurious impediments to the emission and vent of their own commodities. Nor is this the case in reference to a single foreign nation only. The regulations of several countries, with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States.

In such a position of things the United States cannot exchange with Europe on equal terms, and the want of reciprocity would render them the victim of a system which should induce them to confine their views to agriculture, and refrain from manufactures. A constant and increasing necessity, on their part, for the commodities of Europe, and only a partial and occasional demand for their own in return, could not but expose them to a state of impoverishment compared with the opulence to which their political and natural advantages authorize them to aspire.

Remarks of this kind are not made in the spirit of complaint. It is for the nations, whose regulations are alluded to, to judge for themselves, whether, by aiming at too much, they do not lose more than they gain. It is for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong, of foreign policy.

Laissez Faire. Another objection, Hamilton finds, "turns on the proposition that industry, if left to itself, will naturally find its way to the most useful and profitable employment. Whence it is referred that manufactures, without the aid of government, will grow up as soon and as fast as the natural state of things and the interest of the community may require." But he answers with what he regards as "very cogent reasons": Government aid is needed to overcome and affect the strong influence of habit and the spirit of imitation; the fear of want of success in untried enterprises; the intrinsic difficulties incident to first essays toward a competition with those who have previously attained to perfection in the business to be attempted; the bounties, premiums, and other artificial encouragements with which foreign nations second the exertions of their own citizens in the branches in which they are to be rivaled.

Objections to Manufactures in the United States. Hamilton next recognizes the three most frequently repeated arguments heard in his day to show that the young country was unfitted for the pursuit of manufactures. These arguments centered about the scarcity of hands, the dearness of labor, and the want of capital. He takes up each of these limitations and finds the first two "to a certain extent real." But the scarcity of hands can be overcome by establishing manufactures in those regions already to some extent fully peopled, by the employment of women and children, by the hiring of persons engaged in seasonal trades during their off-seasons, by attracting through various devices and aids immigrants—"ingenious and valuable workmen in different arts and trades"—and by the use of power-driven and other machinery which save labor. Such expedients will also help to overcome the handicap of dearness of labor.

In the analysis of this dearness, Hamilton offers some generalizations on what might be called "comparative costs." He finds that the United States enjoys some advantage in the costs of materials and faces about equal costs with foreign countries when the expense of grounds, buildings, machinery, tools, etc., are considered. American wages, while definitely higher, are not as much higher "as is commonly supposed." The item of profits, in so far as it is a result, does not lend itself to comparison:

> But with respect to all the remaining items (transportation, insurance, and expenses incidental to shipment to the United States, duties, taxes, fees, etc., connected with their exportation; taxes, duties, fees, etc., connected with importation) they are alone applicable to the foreign manufacture, and in the strictest sense extraordinaries; constituting a sum of extra charge on the foreign fabric, which cannot be estimated at less than from fifteen to thirty percent on the cost of it at the manufactory.
>
> This sum of extra charge may confidently be regarded as more than a counterpoise for the real difference in the price of labor; and is a satisfactory proof that manufactures may prosper in defiance of it in the United States.

Hamilton also undertakes to show how the scarcity of capital can be overcome and then suggests that the best answer to those who question whether manufacturing would be successful in the United States is to take cognizance of the amount already in existence—a task to which he devotes a large part of his report.

The Means Appropriate to the United States. Having built up his case for the establishment of manufactures in the United States, Hamilton turns to the last part of his task, namely, the determination of the means appropriate to this end. In so doing, he considers "those which have been employed with success in other countries." These devices included (1) protective duties, (2) prohibitions of rival articles or prohibitory duties, (3) prohibitions on the exportation of the materials of manufacture, (4) pecuniary bounties, (5) premiums, (6) exemption of certain materials from duty (a free list), (7) drawbacks, and (8) the encouragement of both domestic inventions and the obtaining of those of foreign origin. It is to a statement and summation of Hamilton's views on each of these devices that we now turn.

1. *Protecting Duties, or Duties on Those Foreign Articles Which Are the Rivals of the Domestic Ones Intended to Be Encouraged:*

> Duties of this nature evidently amount to a virtual bounty on the domestic fabrics, since by enhancing the charges on foreign articles they enable the national manufacturers to undersell all their foreign competitors. The propriety of this species of encouragement need not be dwelt upon, as it is not only a clear result from the numerous topics which have been suggested, but is sanctioned by the laws of the United States in a variety of instances; it has the additional recommendation of being a source of revenue. Indeed, all the duties imposed

on imported articles, though with an exclusive view to revenue, have the effect in contemplation; and, except where they fall on raw materials, wear a beneficent aspect towards the manufactures of the country.

2. *Prohibitions of Rival Articles, or Duties Equivalent to Prohibitions:*

This is another and an efficacious means of encouraging national manufactures; but in general it is only fit to be employed when a manufacture has made such a progress, and is in so many hands, as to insure a due competition and an adequate supply on reasonable terms. Of duties equivalent to prohibitions there are examples in the laws of the United States; and there are other cases to which the principle may be advantageously extended, but they are not numerous.

Considering a monopoly of the domestic market to its own manufacturers as the reigning policy of manufacturing nations, a similar policy on the part of the United States, in every proper instance, is dictated, it might almost be said, by the principles of distributive justice; certainly by the duty of endeavoring to secure to their own citizens a reciprocity of advantages.

3. *Prohibitions of the Exportation of the Materials of Manufactures:* While Hamilton does not regard the use of this device as being "in no instance proper," yet he considers it as "one which ought to be adopted with great circumspection and only in very plain cases." The objection arises out of the harm done some other industry or branch of agriculture which supplies the material through an abridgement of demand and a lowering of price.

4. *Pecuniary Bounties:* The emphasis which Hamilton places on pecuniary bounties arose from the fact that while he regarded them as "one of the most efficacious means of encouraging manufactures," and even, on occasion, "the best" means, they had not yet been put to real use by the government and were "less favored by public opinion than some other modes." The reason for public prejudice was the "appearance of giving away the public money without an immediate consideration, and from a supposition that they serve to enrich particular classes at the expense of the community." But in Hamilton's opinion, "There is no purpose to which public money can be more beneficially applied than to the acquisition of a new and useful branch of industry, no consideration more valuable than a permanent addition to the general stock of productive labor." Furthermore, any type of encouragement involves the use of public money to some degree. "But it is the interest of the society in each case to submit to a temporary expense, which is more than compensated by an increase of industry and wealth, by an augmentation of resources and independence, and by the circumstances of eventual cheapness, ..." Hamilton sounds the warning, however, that in establishing

bounties, the amounts should be moderated because of the geographical protection afforded by the distance from Europe—a point already considered. Their continuance "on manufactures long established must always be of questionable policy," however.

The arguments which he advances in favor of the bounty are four in number: It gives the most positive and direct encouragement, is less likely to cause price increases, shows less of a tendency to produce scarcity, and best serves the double task of "uniting the encouragement of a new object of agriculture with that of a new object of manufacture." A bounty on raw materials, accordingly, counteracts the interference of similar foreign material and thus helps the farmer while benefiting at the same time the manufacturer who wants his material to be abundant and cheap. We see here, again, that Hamilton is intent upon bridging the gap between agriculture and industry which the physiocratic influence brought about.

5. *Premiums:* Hamilton regards premiums as "a very economical means of exciting the enterprise of a whole community." Paid only as a reward for "some particular excellence of superiority, some extraordinary exertion or skill," they are far less expensive than bounties which must be paid on the whole output.

6. *The Exemption of the Materials of Manufactures from Duty:* As a general rule, and in keeping with the practice of other nations, Hamilton argued that raw materials for manufacturing industries were to be admitted free of duty. A finished product was a better subject for a tax than the unworked material. There was, moreover, some acceptance of the duty-free principle in American law—"the regulation which exempts from duty the tools and implements, as well as the books, clothes and household furniture, of foreign artists who come to reside in the United States."

7. *Drawbacks of the Duties Which Are Imposed on the Materials of Manufactures:* When duties are imposed on raw materials, accordingly, it would seem proper to allow the drawback of such duties on their re-exportation in finished form. Molasses, for example, could be used both as a consumer good and as a raw material for different products. Since it was used so extensively in its first form as a sweetener, Hamilton argues that "it is just that the consumer of it should pay a duty as well as the consumer of sugar," but, on that portion of it which was subject to further processing and intended for export, the manufacturer should be allowed a drawback. Again, in the case of products such as white cotton and linen cloth, the duty imposed was intended to protect a growing cloth industry, but, when such cloth was imported and then printed and stained, the cloth really became a different product and a drawback might encourage the growth of a related industry. But here, once again, Hamilton limits the protection to such time when the cloth industry would reach

maturity, when presumably no protective tariff would be needed and no drawback would be necessary. A third case, probably a case of transition from an inadequate domestic supply to one ample for domestic purposes, is illustrated by the raw material, hemp. If a duty is still being levied on such a product, no particular purpose could be served by allowing a drawback.

8. *The Encouragement of New Inventions and Discoveries at Home, and of the Introduction into the United States of Such as May Have Been Made in Other Countries Particularly Those Which Relate to Machinery:* Hamilton places the encouragement of new inventions and discoveries at home through the use of patents, copyrights, and similar means as "among the most useful and unexceptionable of the aids which can be given to manufactures." He also argues for such activity of government as would bring about the introduction of foreign improvements, although he realizes the accomplishment of this was severely limited by the activity of other governments:

> It is customary with manufacturing nations to prohibit, under severe penalties, the exportation of implements and machines which they have either invented or improved. There are already objects for a similar regulation in the United States, and others may be expected to occur from time to time. The adoption of it seems to be dictated by the principle of reciprocity. [Or does he mean retaliation?] Greater liberality in such respects might better comport with the general spirit of the country; but a selfish and exclusive policy in other quarters will not always permit a free indulgence of a spirit which would place us upon an equal footing. As far as prohibitions tend to prevent foreign competitors from deriving the benefit of the improvements made at home, they tend to increase the advantages of those by whom they have been introduced, and operate as an encouragement to exertion.

The Factual Side of the Report. Although the argumentative side of the *Report* is our primary concern for the light it throws on the development of commercial policy, it may not be amiss to record briefly the content of the factual side. Hamilton cites seventeen types of production which had reached encouraging proportions, including—products made from skins: such as "tanned and tawed leather, dressed skins, shoes, boots, and slippers, harness and sadlery of all kinds, portmanteaus and trunks, leather breeches, gloves, muffs and tippets, parchment and glue;" products of iron: "bar and sheet iron, steel, nail rods and nails, implements of husbandry, stoves, pots, and other household utensils, the steel and iron work of carriages, and for shipbuilding, anchors, scale-beams, and weights, and various tools of artificers, arms of different kinds;" products of wood: "ships, cabinet wares and turnery, wool and cotton cards, and other machinery for manufactures and husbandry, mathematical instruments, coopers' wares of every kind;" cables, sail-cloth, cordage twine and pack-

thread; bricks, coarse tiles, and potters' wares; ardent spirits and malt liquors; writing and printing paper, sheathing and wrapping paper, pasteboards, fullers' or press paper, paper hangings; hats of fur and wool, and of mixtures of both, women's stuff and silk shoes; refined sugars; oils of animals and seeds, soap, spermaceti and tallow candles; copper and brass wares (particularly utensils for distillers, sugar refiners, and brewers), andirons and other articles for household use, philosophical apparatus; tin wares for most purposes of ordinary use; carriages of all kinds; snuff, chewing and smoking tobacco; starch and hair powder; lampblack and other painters' colors; and gunpowder.

In addition to these products, Hamilton refers to the "vast scene of household manufacturing which contributes more largely to the supply of the community than could be imagined without having made it an object of particular inquiry." The *Report* also contains information regarding the principal raw materials in the country such as iron, copper, lead, fossil coal, wood, skins, grain, flax, hemp, cotton, wool, and materials for the making of glass, gunpowder, paper, printed books, refined sugars and chocolate.

FRIEDRICH LIST

Introduction. We have already seen that Hamilton's task was made easier by the fact that Smith had already shown the defects of mercantilism and the shortcomings of physiocracy and that the commercial happenings during the period of the Articles of Confederation had revived a widespread belief in the efficacy of the tariff. What he did, then, was to show how manufacturing and commerce enriched a nation and helped the farmer, answered the objections that the young country was unfitted for manufacturing, and advocated the tariff and related forms of governmental aid as a major solution. Hamilton, however, was not writing to discover any universal truths applicable to all countries but was concerned solely with his own young country.

It fell to Friedrich List, then, to question the whole free trade doctrine and to re-examine the *Wealth of Nations* very much as Smith had reexamined mercantilism. His findings were favorable to certain tenets of mercantilism, although on somewhat different grounds, while his agreement with Smith is more than obscured by his emphasis on his disagreement with the famous Scotchman. List's important work, *The National System of Political Economy*,[2] went through three editions in a few months and was translated into a number of languages. It exerted great influence on the Continent in the years which followed and enjoyed a new vogue in the period of the eighties.

[2] List, Friedrich, *The National System of Political Economy* (London: Longmans, Green & Co., Ltd., 1928), tr. by Sampson S. Lloyd.

Life of Friedrich List (1789–1846). List was born in Württemberg in 1789 and as a young man witnessed the effects of the close of the Napoleonic wars on the commerce and industry of the numerous German states. The Continental blockade had served virtually as a protective system, and, with its removal, the low tariffs of the German states were shown to be inadequate. But more than this, the lack of free trade between the German states themselves depressed trade. List, who had entered the civil service at the age of seventeen and who had made rapid progress, even to the appointment as Professor of Practical Administration at the University of Tübingen, held certain "liberal" views regarding a commercial union of the states and political reform. These views, which he championed vigorously, were to cause him to lose his professorship after one year, cause his two elections to the National Legislative Assembly to be annulled, bring about his imprisonment, make necessary his escape to and subsequent expulsions from Strassburg and Baden, find him refuge in Paris and a warm friendship with Lafayette, result in his imprisonment upon his return to his native Württemberg and subsequent release upon his promise that he would renounce his nationality as a Württemberger and leave the country. Once again, he went to Strassburg, but the animosity of his government followed him and he was expelled. Then he accepted an invitation of Lafayette in 1825 to come to the United States. In the latter's company he toured the eastern part of the country and subsequently settled in Reading, Pennsylvania, where he found affluence in the discovery of a new coal field and in writing.

Although taking an active part in American affairs and becoming the friend of Andrew Jackson, Henry Clay, James Madison, and other leaders, he never forgot the needs of his own land and regarded the tariff controversy in the United States as an excellent laboratory. Certainly this controversy was a heated one at that time. Within two years after his arrival, the Harrisburg Convention had promulgated its famous "Memorial to Congress and the American People," favoring a thoroughgoing protectionist policy. In the same year, the theory of nullification by states of unpopular acts of the federal government was proposed at a public dinner in the South. Just a year later the "Tariff of Abominations" was passed. List's own views took the form of letters which were published in pamphlet form in 1827 and were entitled, *Outlines of Political Economy*. They had previously appeared as letters in List's *Adler*, a German newspaper, and contained his attack on free trade.

President Jackson appointed List to go to Paris on a commercial mission in behalf of the United States and in 1830 named him as United States Consul to Hamburg. But the Senate of Hamburg refused to accept him. Thereupon he became the Consul at Leipsig. Retiring from that post, he settled finally in Augsburg, never returning to the United States.

His tireless efforts in behalf of a tariff union, of a network of railroads connecting the German states, and so on, made for him a great reputation all over Europe, and he was looked to as the guide on the subject of protectionism. Even those who opposed him, such as the English leaders in the anti-corn law movement, treated him with respect, while the triumph of his career was probably reached when the same King of Württemberg who had exiled him, greeted him with the words, "My dear List, I bear you no ill-will. What a pity it is that twenty-four years ago we had not learned to know each other as well as we do now."[3]

List's Use of the Historical Method. List approached his task of discovering the true cause of the wealth of a nation with a method that later became associated with a distinct school of writers, the "historical school." He devoted the first nine chapters of his book to the Italians, Hansards, Dutch, English, Spaniards and Portuguese, French, Germans, Russians, and North Americans. From this history—past and contemporary—of these peoples, List extracted a number of teachings on which to base his national system. These teachings may, for our purposes, be regarded as four in number:

1. "Everywhere and at all times has the well-being of the nation been in equal proportion to the intelligence, morality, and industry of its citizens; according to these, wealth has accrued or been diminished; but industry and thrift, invention and enterprise, on the part of individuals, have never as yet accomplished aught of importance where they were not sustained by municipal liberty, by suitable public institutions and laws, by the State Administration and foreign policy, but above all by the unity and power, of the nation."[4]
2. A high state of prosperity in manufacturing is essential to a flourishing inland and foreign commerce, a good navigation system, and a prosperous agriculture. But to establish manufactures in the face of "the overwhelming reserves of capital and the greater experience and sagacity of the foreigners" calls for a restrictive commercial policy. Such a policy can be operated for good, however, "only so far as it is supported by the progressive civilization and free institutions of a nation." The latter will also aid in bringing arts and trades from less free communities thereby increasing the manufacturing possibilities.[5]
3. The principle of free trade contends "in vain under unfavorable conditions against restrictions powerfully enforced" by other nations, and will continue to do so until such day when the "conflict of national interests shall cease, in other words until all nations can be united under one and the same system of law."[6]

---

[3] *Ibid.*, pp. xxxvi–xxxvii.
[4] *Ibid.*, p. 87.
[5] *Ibid.*, pp. 89–90.
[6] *Ibid.*, pp. 90–91.

4. Neither free trade nor protection, however, can serve as the permanent policy of a nation. Just as a nation can reach a certain development under free trade and then a higher development by instituting protection, so a point may be reached when the free trade principle might again become the wisest policy. In developing this historic lesson, List gives us his famous stages of national development. A nation will act most wisely "in the first stage, adopting free trade with more advanced nations as a means of raising themselves from a state of barbarism, and of making advances in agriculture; in the second stage, promoting the growth of manufactures, fisheries, navigation, and foreign trade by means of commercial restrictions; and in the last stage, after reaching the highest degree of wealth and power, by gradually reverting to the principle of free trade and of unrestricted competition in the home as well as in foreign markets, so that their agriculturists, manufacturers, and merchants may be preserved from indolence, and stimulated to retain the supremacy which they have acquired."[7]

List's Stages of Economic Development. In his day, he found Spain, Portugal, and the Kingdom of Naples in the first stage; Germany and the United States in the second; France on the boundary of the second; and Great Britain the one nation reaching the third stage. In a later chapter he subdivides his three stages into five and thereby lays himself open to charges by later writers of picturing nonexistent stages. If the stages be taken broadly however, the objections are not serious. Under this arrangement, Stage 1 may be called the state of original barbarism; Stage 2, pastoral state; Stage 3, agricultural state; Stage 4, agricultural-manufacturing state; and Stage 5, manufacturing-commercial state.[8]

The Industrial history of nations . . . . proves that the transition from the savage state to the pastoral one, from the pastoral to the agricultural, and from agricultural to the first beginnings in manufacture and navigation, is effected most speedily and advantageously by means of free commerce with further advanced towns and countries, but that a perfectly developed manufacturing industry, an important mercantile marine, and foreign trade on a really large scale, can only be attained by means of the interposition of the power of the State.[9]

But "only in such nations are commercial restrictions justifiable for the purpose of establishing their own manufacturing power; and even in them it is justifiable only until that manufacturing power is strong enough no longer to have any reason to fear foreign competition, and thenceforth only so far as may be necessary for protecting the inland manufacturing power in its very roots."[10]

[7] *Ibid.*, p. 93.
[8] *Ibid.*, p. 143.
[9] *Ibid.*, p. 144.
[10] *Ibid.*

His Attitude toward Physiocracy. Since List looked upon a mere agricultural nation as being in a lower level of development, it is not difficult to understand his rather contemptuous dismissal of physiocracy. Pointing out that it arose out of conditions existing in France, he says of the physiocrats:

> But these thoughtful men . . . . were either physicians to the King and his Court, Court favorites, or confidants and friends of the aristocracy and the clergy, they could not and would not declare open war against either absolute power or against clergy and nobility. There remained to them but one method of disseminating their views, that of concealing their plan of reform under the obscurity of a profound system, just as, in earlier as well as later times, ideas of political and religious reform have been embedded in the substance of philosophical systems. Following the philosophers of their own age and country, who, in view of the total disorganization of the national condition of France, sought consolation in the wider field of philanthropy and cosmopolitanism (much as the father of a family, in despair at the break-up of his household, goes to seek comfort in the tavern), so the physiocrats caught at the cosmopolitan idea of universal free trade, as a panacea by which all prevailing evils might be cured.[11]

List on Laissez Faire. "In short," he summarizes, "people contrived by means of the most absurd arguments and contentions to prove those great truths which they had determined beforehand to prove."[12] One of these "truths" had to do with freedom. What List's interpretation of freedom is, one cannot say with certainty. He obviously disliked the maxim of laissez faire. For him it was "an expression which sounds no less agreeably to robbers, cheats, and thieves than to the merchant, and is on that account rather doubtful as a maxim." He does not believe that people should be let alone, yet he wants a great measure of freedom for them. While admiring the freedom that he found in his historical study, he cannot accept the belief that a person pursuing self-interest unconsciously benefits the community. "Is the wisdom of private economy, also wisdom in national economy?" he asks. "Is it in the nature of individuals to take into consideration the wants of future centuries, as those concern the nature of the nation and the state?" And then, after a lengthy attack on laissez faire, he concludes, "In a thousand cases the power of the State is compelled to impose restrictions on private industry."[13]

Statistics and history teach that the necessity for the intervention of legislative power and administration is everywhere more apparent, the further the economy of the nation is developed. As individual liberty is in general a good thing so long as it does not run counter to the interests of

[11] *Ibid.*, p. 275.
[12] *Ibid.*, pp. 275–76.
[13] *Ibid.*, pp. 133–34.

society, so is it reasonable to hold that private industry can only lay claim to unrestricted action so long as the latter is consistent with the well-being of the nation. But whenever the enterprise and activity of individuals do not suffice for this purpose, or in any case when these might become injurious to the nation, there does private industry rightly require support from the whole power of the nation, there ought it for the sake of its own interests to submit to legal restrictions.[14]

List's Concept of Wealth. Having laid the justification for intervention, he then has restored a basis for many mercantilistic ideas and at the same time has upset, to his satisfaction, much of that for which Smith stood. List believed that Smith's definition of wealth in terms of goods was incomplete because it did not include productive powers as well. Division of labor, moreover, was not a cause but a result of increasing wealth. While productive powers were partially recognized by Smith, List regarded them as the more important part of wealth. They include the human faculties—intelligence, morality, industry and thrift, convention and enterprise, municipal liberty, suitable public institutions and laws, arts and sciences, promotion of religion, security for person and property, freedom and justice, and education. The increase of these productive powers, and therefore of the wealth of a nation, calls for state intervention.

With this attitude toward wealth, List had to admit that Smith was justified in criticizing mercantilists who stressed gold and silver as wealth; but he differed sharply with Smith on the question of leaving their import and export without control and of regarding the balance of trade with indifference:

> The popular theory has evidently fallen into the opposite extreme of the errors of the so-called mercantile system. It would be of course false if we maintained that the wealth of nations consisted merely in precious metals; that a nation can only become wealthy if it exports more goods than it imports, and if hence the balance is discharged by the importation of precious metals. But it is also erroneous if the popular theory maintains, under the existing conditions of the world, that it does not signify how much or how little precious metals circulate in the nation; that fear of possessing too little of the precious metals is a frivolous one, that we ought rather to further their exportation than favour their importation, etc.[15]

While List granted that this might be true if universal free trade were the rule, nations were not allowing the precious metals to move with the natural course of things but were adhering to commercial policies which regarded conditions of war and peace, internal credit, and other real issues; and, therefore, "as long as separate national interests exist, a wise State policy will advise every great nation to guard itself by its commer-

[14] *Ibid.*, p. 139.
[15] *Ibid.*, p. 226.

cial system against extraordinary money fluctuations and revolutions in prices which overturn its whole internal economy, and it will attain this purpose only by placing its internal agricultural production and its imports with its exports."[16]

Balance of Trade. In writing about the balance of trade, List was careful to avoid the mercantilistic pitfalls of that term:

> We are far from wishing in these remarks to revive the doctrine of the balance of trade as it existed under the so-called "mercantile system," and to maintain that the nation ought to impose obstacles in the way of the exportation of precious metals, or that we must keep a specially exact account with each individual nation, or that in the commerce between great nations a few millions difference between the imports and exports is of great moment. What we deny is merely this: that a great and independent nation, as Adam Smith maintains . . . . may continually import every year considerably larger values in products and fabrics than it exports; that the quantities of precious metals existing in such a nation may decrease considerably from year to year and be replaced by paper circulation in the interior; moreover, that such a nation may allow its indebtedness towards another nation continually to increase and expand, and at the same time nevertheless make progress from year to year in prosperity.[17]

Low Custom Duties and Crises. List held that a country employing gold as a basis for bank note credit was particularly vulnerable when an unfavorable balance led to the export of bullion. Banks suffered and commercial crises resulted. Tying up the unfavorable balance with a low tariff system, he concluded:

> The cause of the latest as well as of former American commercial crises, has been alleged to exist in the American banking and paper system. The truth is that the banks have helped to bring about that crisis in the manner above named, but the main cause of their occurrence is that since the introduction of the "Compromise" bill (Clay's Compromise) the value of the English manufactured goods has far surpassed the value of the exported American products, and that thereby the United States has become indebted to the English to the amount of several hundreds of millions for which they could not pay in products.[18]

Crises "have always taken place whenever (in consequence of peace having set in or of a reduction being made in the American customs duties) importation of manufactured goods into the United States has been unusually large, and that they have never occurred as long as the imports of goods have been prevented by customs duties on imports from exceeding the value of the exports of produce."[19]

---

[16] *Ibid.*, p. 227.
[17] *Ibid.*, pp. 229–30.
[18] *Ibid.*, p. 222.
[19] *Ibid.*

Geographical Division of Labor. List not only objected to free trade for a country whose manufactures required protection and to some of Smith's views on the subject, he even objected to the illustrations used, suggesting that they were both faulty in content and inadequate in number. Smith's illustration of the folly of growing grapes and producing wine in Scotland (A limitation imposed by nature) does not mean, List insisted, that it would be foolish to establish manufactures by artificial methods. Furthermore, the attempt to prove the benefit of international division of labor to a nation by reference to private economy is equally poor.

A tailor is no nation, and a nation no tailor; . . . . one family is something very different from a community of millions of families; . . . . one house is something very different from a large national territory.[20]

. . . . if it be true . . . . that in the present conditions of the world a new unprotected manufacturing power cannot possibly be raised up under free competition with a power which has long since grown in strength and is protected on its own territory; how can anyone possibly undertake to prove by arguments only based on the mere theory of values, that a nation ought to buy its goods like individual merchants, at places where they are to be had the cheapest—that we act foolish if we manufacture anything at all which can be got cheaper from abroad—that we ought to place the industry of the nation at the mercy of the self-interest of individuals—that protective duties constitute monopolies, which are granted to the individual home manufacturers at the expense of the nation?[21]

It is true that protective duties at first increase the price of manufactured goods; but it is just as true, and moreover acknowledged by the prevailing economical school, that in the course of time, by the nation being able to build up a completely developed manufacturing power of its own, those goods are produced more cheaply at home than the price at which they can be imported from foreign parts. If, therefore, a sacrifice of *value* is caused by protective duties, it is made good by the gain of a *power of production*, which not only secures to the nation an infinitely greater amount of material goods, but also industrial independence in case of war. Through industrial independence and the internal prosperity derived from it the nation obtains the means for successfully carrying on foreign trade and for extending its mercantile marine; it increases its civilization, perfects its institutions internally, and strengthens its external power. A nation capable of developing a manufacturing power, if it makes use of the system of protection, thus acts quite in the same spirit as that landed proprietor did who by the sacrifice of some material wealth allowed some of his children to learn a productive trade.[22]

In this last comparison, List apparently forgot that he criticized Smith for reasoning as if a nation were an individual!

---

[20] *Ibid.*, p. 134.
[21] *Ibid.*, p. 117.
[22] *Ibid.*, pp. 117–18.

As a final step in building up his case for government interventions and for the protective systems, he considered the charge that government interferences cause capital to flow into certain industries where it might not have gone otherwise.

"But," countered List, "the State does not order any one to enter a type of business or train himself for a particular task." It merely says:

> It is to the advantage of our nation that we manufacture these or the other goods ourselves; but as by free competition with foreign countries we can never obtain possession of this advantage, we have imposed restrictions on that competition, so far as in our opinion is necessary, to give those among us who invest their capital in these new branches of industry, and those who devote their bodily and mental powers to them, the requisite guarantees that they shall not lose their capital and shall not miss their vocation in life; and further to stimulate foreigners to come over to our side with their productive powers. In this manner, it does not in the least degree restrain private industry; on the contrary, it secures to the personal, natural and moneyed powers of the nation a greater and wider field of activity. It does not thereby do something which its individual citizens could understand better and do better than it; on the contrary, it does something which the individuals, even if they understood it, would not be able to do for themselves.[23]

List's Views on Duties. List did not approve of duties on exports or the prohibition of exports. Their use was to be considered exceptional. Duties on raw materials should be imposed for revenue only. Revenue duties, moreover, were to be so moderate as not essentially to restrict importation and consumption. None of the devices used for protection (prohibitions, prohibitory rates, moderate import duties) was invariably beneficial or invariably objectionable, but a country employing them must be in a right stage of development. Any technical industry, according to List, which could not be established by means of an original protection of 40 per cent to 60 per cent and later survive under one-half of those rates showed lack of the fundamental conditions of manufacturing power. He held that in maintaining that defense was more important than opulence, Smith embraced the whole protective system and that the same reasoning that led Smith to allow a tariff to offset a domestic tax should also justify the use of a tax to offset natural shortcomings—that is, the use of the protective duty. List objected to the use of retaliation, which Smith endorsed under certain conditions, because he saw that it might lead to the most absurd and ruinous measures. The granting of drawbacks was best limited only to those cases where half-manufactured goods, still imported from abroad, must be subjected to a considerable protective duty in order to enable the country gradually to produce them itself.[24]

---

[23] *Ibid.*, pp. 135–36.
[24] *Ibid.*, p. 252.

List's Views on Bounties. The use of the bounty found only a lukewarm advocate in List. He objected to a bounty as a permanent measure and justified its use only as a temporary means of encouragement. But, even temporarily, he believed that the state would do better by advancing loans free of interest, by granting privileges to individuals, or by promoting companies and giving them capital advances. A bounty was good neither for the country giving it nor for the country buying the product. In commenting on J. B. Say's belief that a bounty is a present one country gives to another, List remarked that such a present should be regarded as a Trojan horse.[25]

List and Hamilton. List does not mention Hamilton in his *National System of Political Economy*. Yet, in so far as List used the development of the United States as his model, he necessarily advocated certain principles involved in the Hamiltonian system. It is not at all easy to compare their views with any degree of refinement for the simple reason that Hamilton's were contained in a report to Congress whereas List's fill a book of about three hundred and fifty pages. In general, however, it may be said that the two men agreed in their estimation of physiocracy and its emphasis on agriculture, in their belief that freedom of trade if universally practiced might be desirable, in their reliance on the protective tariff system and its temporary character, in their recognition of the shortcomings of laissez faire, in their approval of the use of drawbacks, and in their questioning of prohibitory duties and prohibitions on the export of raw materials. They disagreed on the use of retaliation and the efficacy of the bounty.

Influence of List. We have already noted that Friedrich List wielded great influence through his re-examination of the free-trade doctrine, his strengthening of the idea of protection, and his arguing in favor of nationalism as a substitute for mercantilism, on the one hand, and cosmopolitanism, on the other. In so doing he disagreed with Adam Smith on various points and laid down, wrongly we believe, the general idea, which since has fastened itself on men's minds, that the advocate of free trade is a "cosmopolitan." This term, unfortunately, appears to make those on whom it is fixed somewhat less alert to their country's best interests and therefore less patriotic than those called "nationalists." List undoubtedly overemphasized certain of Smith's views much as Smith may have done in his criticisms of mercantilism. We must understand, however, that when List wrote he found it necessary to do so because, as he tells us in his preface, "all scientifically educated government employees, all the newspaper editors, all the writers on political economy, had been trained up in the cosmopolitical school (that is, Smith's teachings), and regarded every kind of protective duty as a theoretical abomination."

[25] *Ibid.*, p. 118.

It is unfortunate that other phases of List's teachings have failed to win an equally important place in commercial policies—that one, for example, which held that protection was not to be a permanent policy for any nation but that, after a certain state was reached, a policy of free trade should be pursued. List, apparently, with so many others, failed to realize that the protectionist policy—whether moderately or otherwise employed—becomes so entrenched in political parties and builds up such a group of vested interests that the transition to free trade is almost impossible. The story is all too familiar in the United States. We do not have a free-trade party in this country, although the Democratic party has been erroneously referred to in this manner with amazing persistence. Both the Republican and Democratic parties believe in a tariff higher than a revenue tariff which might be consistent with free trade. In other countries, as well, certain political parties become associated with a belief in protectionism or some degree of revenue tariff policy, and tariff revision remains a political question rather than an economic one.

There is, perhaps, one more teaching of List which has only been applied in part by the nations of the world, although some countries have employed it for many years. Yet its use must ultimately be the one that will enable the countries of the world to move toward freer trade. List taught that treaties between countries were the most effective means of reducing gradually a restrictive system, and in this he progressed beyond Adam Smith for whom such a treaty was not an unmixed good.

SUMMARY

Alexander Hamilton wrote his famous *Report on Manufactures* within sixteen years after the appearance of the *Wealth of Nations*. He rescued the tariff portion of mercantilism from destruction and built it into a system which has played an important role in the world ever since. In the *Report* he stated, analyzed, and then answered all of the arguments against this country's chances of success in manufacturing and pointed out wherein the admitted shortcomings could be remedied. He argued the complementary nature of industry and agriculture. He advocated protective duties, bounties, premiums, the free importation of raw materials, drawbacks, and the establishment of a patent system. He questioned the use of prohibitory duties. His *Report* contributed largely to the tariff system of this country.

Friedrich List, a German who lived for a time in Pennsylvania, went further than Hamilton and questioned the whole free-trade doctrine. In his *National System of Political Economy*, he studied the rise and fall of many nations. From this he gleaned stages of national development. In the earlier stages he advocated free trade; in the intermediate, protection; and in the last stage (manufacturing-commercial state), a return to free

trade. List opposed export duties and prohibitions on exports as well as retaliatory tariffs. He gave qualified endorsement to bounties. He influenced Germany and other Continental countries and may be "credited" with the rebirth of a degree of mercantilism.

QUESTIONS FOR DISCUSSION

1. To what extent and in what respects were the views of Hamilton as expressed in his *Report on Manufactures* similar to those of Adam Smith?
2. Did Hamilton advocate a system of protection on theoretical grounds or on grounds of expediency? Explain.
3. How did Hamilton rebut the traditional arguments against the feasibility of establishing manufactures in the United States? What methods did he suggest for accomplishing this end?
4. What five stages of economic development did List enumerate? What type of commercial policy did he advocate for each? Why?
5. What was List's attitude toward laissez faire? What fundamental assumption of the classical school did he challenge?
6. How did List's concept of wealth differ from that of Smith? Whose definition most closely approximates that of the majority of contemporary economists? How did List's concept of wealth condition his attitude toward protection?
7. What was List's interpretation of the significance of the balance-of-trade theory? How did List relate an "unfavorable" balance of trade to economic depressions?
8. What do you regard as the most significant contribution of Friedrich List to the theory of international trade?

PART II

THE TARIFF POLICIES OF THE UNITED STATES

CHAPTER XI

THE TARIFF POLICY OF THE UNITED STATES: 1789–1861

Introduction to the Tariff Policy of the United States. The tariff policy of a country really does not have an existence of its own distinct from the social, political, and economic developments within that country nor separate from the international scene at a particular time. Tariff policy is both a manifestation of a particular set of circumstances and an attempt to continue those conditions or modify them—at one and the same time being regarded by some as the cause of most of the existing woes and by others as the panacea for those same woes. For this reason the tariff policy of a country cannot be interpreted without reference to the geographic, social, political, economic, and international circumstances at a given time. The student who would understand the tariff of any given country or of any period should either bring to his study the richest possible historical background or else be willing to absorb the essentials by viewing the policy with reference to history.

A tariff policy, moreover, is two-sided and may be compared to a wall. Every export from a country is some other country's import; and every tariff imposition, while apparently a domestic law to bring in a revenue or build up home industries, is, at the same time, the means of keeping out some other country's exports. Too often, we look upon only one side of the wall—our own side. We are likely to regard the tariff as a means of controlling the inflow of foreign goods or as a means of raising revenue. But to understand the tariff policy and employ it to its fullest advantage (or least disadvantage), we must be willing and capable of looking over the wall to understand the effect of a tariff—or any other commercial policy—on the aims and aspirations of other nations. If we would do this, we would find that a country's tariff policy invariably leads to certain reactions on the part of other countries and, as we shall point out later, that there is even a certain world rhythm in the movements toward free trade or toward protection. We feel, moreover, that the policy of the United States has been a leading one in this movement and that therefore considerable thought ought to be expended on our policy—but more of this, presently.

The First Tariff of the United States. George Washington was inaugurated as President of the United States on April 30, 1789, but already

on April 8, three weeks before that event and but one week after Congress was organized, James Madison introduced a revenue bill to meet the most pressing problems of the young nation. It is not surprising that the source chosen for revenue was a tariff on imports. This arose out of a number of circumstances. Internal taxation of any sort was unpopular, and such as there was rested on property and was needed to meet expenses of local government. The use of direct taxation in the form of a capitation or similar tax was limited by the Constitution "unless in proportion to the census or enumeration." Since such an enumeration was yet to be undertaken, no use could be made of this source. Similarly a tax on exports was prohibited by Article I, Section 9, Paragraph 5 of the Constitution which stated: "No tax or duty shall be laid on articles exported from any State."[1]

On the other hand, the use of a tariff on imports for revenue purposes had much in its favor. Besides being a familiar tax under the Articles of Confederation, and indirect in its incidence, its imposition was an express power of Congress. This was particularly important in the early years when the Constitution was young and when an implied power might not readily be granted by the strict constructionists. The Constitution not only provided that "Congress shall have power: to lay and collect taxes, duties, imposts, and excises to pay the debts and provide for the common defense and general welfare of the United States," (Article I, Section 8, Paragraph 1) but also the power "to regulate commerce with foreign nations" (Paragraph 3).

James Madison, the sponsor of the bill, was a believer in a tariff for revenue. He did not hold this inconsistent with a belief that labor and industry if left alone would seek out those employments most lucrative to the nation or that the use of protection might be proper under certain conditions. These conditions included the continuance of some protection for those industries which had become used to protection, the discouragement of certain imports for sumptuary reasons, and the encouragement of industries needed for national defense.[2] This general viewpoint, the reader will recall, was in harmony with that of Adam Smith.

Debate on the bill lasted seven weeks and defeated the hope of its proponents that it would be passed in time to apply to spring importation of goods. The debate revealed, not so much a sectional attitude in the sense of solid regional support or opposition, but rather that each merchant and group of merchants, manufacturers, importers, and so on considered their immediate interests and made their wants known through

[1] This clause, the only positive prohibition against taxation by Congress, resulted from the belief in the desirability of exports as well as from the spirit of compromise. The southern states with exportable surpluses feared such a tax.

[2] Young, Edward, *Special Report on the Customs-Tariff Legislation of the United States* (Washington, D.C.: U.S. Government Printing Office, 1872), p. v. See also pp. iii–xvi, *passim*. This report is used frequently in this chapter.

memorials and petitions. In spite of this, if some generalization be permitted, the agricultural interests (the South and the West) opposed high rates; the manufacturing areas (Pennsylvania, for example) advocated them; and the commercial interests (New England) favored some high rates while opposing others.

Was It a Protective or Revenue Tariff? The question as to whether the act as finally passed was a protective or revenue tariff has been answered differently by various authorities. Professor Taussig in later editions of his *Tariff History* states that it was "protective in intentions and spirit" even though the "general range of duties was by no means such as would have been thought protective in later days."[3] Professors Ashley and Dewey also regard it as protective, while Mayo-Smith and Seligman look upon it as a revenue-producer. Certainly there can be no doubt that this question is of more than academic significance. If this act (which, in the thought of Stanwood, was the first assertion of sovereignty on the part of the government that came to the people and a test of the sovereignty of the government itself[4]) was protectionist, then it was also an early departure from the doctrine of laissez faire. In so far as many of the early acts were precedent-making and in so far as this one advocated aid to commerce and industry, it is difficult to understand later cries that aids to farmers and other groups constitute departures from our "traditional policy" of laissez faire. Certain it is that the preamble of the tariff act of 1789 gives three reasons for its existence: "for the support of the government, for the discharge of the debts of the United States, and the encouragement and protection of manufactures."

Duties under the Act. The act made use of both specific and ad valorem rates. Specific duties, it has been estimated, were the equivalent of about 8½ per cent ad valorem. Some of the specific rates are given in Table 2.

Other commodities on which specific rates were imposed included tarred and untarred rope, pack thread, wool and cotton cards, porter, cider, cheese, malt, manufactured tobacco and snuff, soap, boots and shoes, playing cards, and iron chains and cables. Other goods were classified according to ad valorem rates of 15, 10, 7½, and 5 per cent. Carriages and carriage parts were subjected to the highest duty. A rate of 10 per cent was fixed on buckles, chinaware and stoneware, glassware, gold and silver leaf, gold lace and tassels, gunpowder, and paints in oil. On such items as anchors, blank-books, brushes, buttons, cabinet-ware, canes and whips, ready-made clothing, leather gloves, woolen mittens, hats, rolled and ham-

[3] Taussig, F. W., *Tariff History of the United States* (New York: G. P. Putnam's Sons, 1914), pp. 14–15.

[4] Stanwood, Edward, *American Tariff Controversies in the Nineteenth Century* (Boston: Houghton Mifflin Co., 1903), Vol. I, p. 43.

mered iron, castings, jewelry, pewter, tin manufactures, gold and silver-plated ware, paper and paper hangings, millinery, and saddlery, the rate was 7½ per cent. On all articles not specifically enumerated, a nominal rate of 5 per cent was imposed.

TABLE 2

SOME SPECIFIC DUTIES UNDER THE ACT OF 1789

Item	Unit	Rate in Cents
Tea	Pound	6–20
Coffee	Pound	2½
Salt	Bushel	6–10
Brown sugar	Pound	1
Refined sugar	Pound	3
Cocoa	Pound	1
Molasses	Gallon	2½
Beer and ale	Gallon	5
Wine and spirits	Gallon	8
Dried fish	Quintal (100 lb.)	50
Pickled fish	Quintal (100 lb.)	75
Steel	Hundredweight	56
Nails	Pound	1
Coal	Bushel	2
Hemp	Hundredweight	60
Tallow candles	Pound	2
Wax candles	Pound	6
Indigo	Pound	16

Other Provisions. The act, which was to continue for seven years, contained essential administrative details and also provided for drawbacks of 99 per cent of the duty paid provided the goods were re-exported within the year. A discount of 10 per cent of the duties was to be allowed when the goods were imported in vessels fully owned by American citizens or were American-built. In the case of tea, the rate was to be doubled if carried in foreign vessels, while the rate for all products imported from China or India in foreign ships was fixed at 12 per cent.

The Act of 1790. Our first tariff, however, was not destined to remain undisturbed for seven years. The need for revenue led to the passage of the Act of August 10, 1790. It followed the recommendations of Alexander Hamilton who was the Secretary of the Treasury. A number of items, formerly assessed at 5 per cent because not enumerated, were now placed in the 10 per cent classification. Among them were bricks, clocks and watches, cloves, ginger, mustard, spices, colors, fruits, lampblack, marble, mortars, parchment, pewter dishes, pickles, pictures, slates, and tiles. Blank-books, jewelry, and plated ware were raised from 7½ to 10 per cent. The rate on chinaware was increased to 12½ per cent. Specific rates on such "luxuries" as wines, coffee, and tea were raised—that imposed on the best quality of tea being forty cents per pound.

Tariff Alterations: 1790–1816. Between 1790 and 1816 there were numerous tariff alterations. The rates on liquor were raised in 1791; a general increase of rates of 2½ per cent over those of the previous act was ordered in 1792; additional duties on tobacco, snuff, and refined sugar were imposed in 1794. An act in 1795 involved rates on sugar, wine, printing type, and girandoles (a term applied both to jewelry and lighting fixtures). In 1797 rates were increased on brown sugar, some kinds of tea, and molasses, while the tax on cocoa was reduced and that on candy was changed from 15 per cent ad valorem to 9 cents a pound. Another law in the same year raised the tax on salt to 20 cents on a bushel. In 1800, a general increase of 2½ per cent on all goods then paying 10 per cent was ordered. Higher rates were authorized on wine, sugar, candy, and molasses as well.

The year 1804 witnessed the passage of two new laws. They provided for the general increase of 2½ per cent on goods assessed on an ad valorem basis and an additional 10 per cent if imported in foreign vessels. The sums raised by this last-mentioned tax were to be put to a curious use. They were to constitute the "Mediterranean Fund" and were "to be used for the protection of the commerce and seamen of the United States against the Barbary Powers." The "pirates" who infested the shores of northern Africa had levied tribute on passing vessels for centuries and were only gradually dislodged between 1816 and 1845. A special tonnage duty of 50 cents for each ton, and known as "light money" was also to be levied on all vessels of foreign ownership. In 1808 an act was passed removing all duties on salt and placing a few other items on a free list.

The tariff of 1812 was framed before the outbreak of war but was signed shortly thereafter. It provided for an addition of 100 per cent to existing duties, a further increase of 10 per cent if the goods were imported in foreign ships, and an added tax of $1.50 per ton on foreign-owned vessels entering American ports. This law was to remain in effect for the duration of the war. In 1813 a duty of twenty cents was levied on each bushel of imported salt and bounties were voted to aid the fishing interests. In 1815 the tonnage provisions were to be repealed in so far as they were assessed against countries which ceased their discrimination against the exports of the United States, but in the following year the system of tonnage duties was continued.

Gallatin's *Report on Manufactures*: 1810. Gallatin in his *Report on Manufactures* in 1810—so reminiscent of Hamilton's *Report* as far as factual material is concerned—has given a rather clear picture of the manufacturing industry of the country at that time. Iron and its manufactures; the manufactures of cotton, wool, and flax; hats; paper; printing types; printed books; playing cards; spirituous and malt liquors; several manufactures of hemp; gunpowder; window glass; jewelry and clocks;

several manufactures of lead; straw bonnets and hats; and wax candles were firmly established and were supplying a considerable part of the domestic consumption. Manufactures of wood, leather, soap and tallow candles, spermaceti oil and candles, flaxseed oil, refined sugar, coarse earthenware, snuff, chocolate, hair powder, and mustard were adequate for the American market and had an export surplus. Gallatin also found that progress was being made in paints and colors, several chemical preparations and medicinal drugs, salt, manufactures of copper and brass, japanned and plated ware, and calico printing; and, like Hamilton, he suggested their encouragement through the use of bounties, premiums, increased import duties, and favorable government loans. Gallatin regarded the scarcity of capital as "the only powerful obstacle against which American manufactures have to struggle." He stated his opposition to prohibitory duties, however, finding in their use three evils: the destruction of competition, the taxing of the consumer, and "the diverting capital and industry into channels less profitable to the nation than those which would have naturally been pursued by individual interest left to itself."

Foreign Relations Affecting Commerce: 1793–1816. The conflict between Great Britain and France beginning in 1793 had a profound effect on American commerce and industry. As a shipbuilding and neutral nation, the United States was in a position to take over much of the carrying trade, while the cutting off of imports exerted much the same influence on young industries as a prohibitory tariff system. Over fifty of the British Orders in Council and proclamations, however, and France's retaliatory measures declaring paper blockades and disregarding neutral rights, as well as England's insistence on impressing American seamen from merchant vessels proved harmful to American interests. Privateering, too, was still permitted by international law. It has been estimated that American shipowners suffered a gross loss of three thousand vessels.

To preserve neutrality, the United States Congress adopted an embargo act on December 22, 1807. This act forbade American ships with merchandise on board to leave for any foreign destination and required of ships engaged in coastwise trade a bond "in a sum of double the value of the vessel and the cargo, that the said goods, wares, or merchandise, shall be relanded in some port of the United States . . . ." The administration's point of view was that: "The embargo, by teaching foreign nations the value of American commerce and productions, will inspire them with a disposition to practice justice. They depend upon this country for articles of first necessity, and for raw materials to supply their manufactures."

But this policy proving disastrous as well as unsuccessful, it was followed in March, 1809 by the Nonintercourse Act which prohibited all commerce between this country and the belligerents. It was understood, however, that the provisions would be lifted in favor of the belligerent

that would remove its decrees against us. While both nations played the game of delay, Napoleon showed more willingness to remove his decrees although he indicated that, if he did so, the United States would have to refrain from respecting the English orders. Negotiations were dragged out for more than a year, and, since England allowed her orders to remain, a special nonintercourse act of sixty days' duration was passed against her upon the expiration of the first act. The next event was the War of 1812 with Great Britain. The effects of all of this on American commerce and shipping, as well as on domestic business in general, were ruinous. The War of 1812 ended in the peace of December 24, 1814. Some 1,400 American vessels and fishing boats had been captured while American privateers and others, in turn, had captured 1,300 vessels of the enemy. Exports, which had amounted to $61,316,832 in 1811 in spite of the international situation, had dropped to a mere $6,927,441 in 1814.[5] Young manufacturing industries alone benefited during the period because they were sheltered from the competition of foreign imports. Bogart writes:

> Upon the conclusion of peace in 1814, our ports were thrown open again and importations of foreign commodities grew greatly; this is shown by their jump from $13,000,000 in 1814 to $147,000,000 in 1816. The pent-up goods of English manufacturers were fairly poured into this country, where they were sold at low prices and upon long credit. . . . It has been asserted by some writers that these forced sales were the result of conspiracy on the part of English manufacturers to crush the budding American industries, and this charge was given color by loose statements on the British side. Henry Brougham informed the House of Commons that "it was well worth while to incur a loss upon the first exportation, in order, by the glut, to stifle in the cradle these rising manufactures in the United States, which the war had forced into existence, contrary to the natural order of things." There is no evidence to show, however, that individual English producers sold at a loss abroad for this reason rather than from a desire to protect domestic prices by relieving the congestion of the home market.
>
> But whatever the motives, the effects upon American manufacturers were sudden and disastrous, especially for the new textile and iron industries. Merchants, shippers, and consumers welcomed this stream of European luxuries and foreign wares, but to the manufacturers they spelled disaster if not ruin.[6]

President Madison's Messages to Congress: 1815. With the news that peace with England had been restored, the problem of renewed importation of manufactured goods and their possible effect on domestic industries became one of serious concern. President Madison in his Message to Congress in February commended to that body "a consideration

[5] Faulkner, Harold U., *American Economic History* (New York: Harper & Bros., 1935), p. 278.

[6] Bogart, Ernest L., *Economic History of the American People* (New York: Longmans, Green & Co., 1936), pp. 389–90.

of the means to preserve and promote the manufactures which have swung into existence, and attained an unparalleled maturity throughout the United States during the period of the European wars." He followed this with his annual message in December of the same year in which he declared: "However wise the theory may be which leaves to the sagacity and interest of the individuals the application of their industry and resources, there are in this, as in other cases, exceptions to the general rule." With this in mind he suggested that it was only proper to protect "the enterprising citizens whose interests are now at stake," especially those engaged in the manufacture of commodities needed for national defense and satisfying the general necessities of everyday life.

The Tariff of 1816. The tariff of 1816 was a protectionist tariff and the last to be voted on along broad national lines.[7] Introduced into the House by William Lowndes of South Carolina and supported in the Senate by Calhoun of the same state, it numbered among its proponents Thomas Jefferson. The latter, who was now seventy-three years old, when informed that views which he expressed in 1785 were being used against the encouragement of manufacturing, wrote a letter to Benjamin Austin which is extremely significant. The views which he had held at that time, he granted, were definitely physiocratic in nature and placed emphasis on agriculture. At least it was then a legitimate question whether the agricultural laborer was not more productive than the manufacturing laborer. Then it was held "that to the labor of the husbandman a vast addition is made by the spontaneous energies of the earth on which it is employed: for one grain of wheat committed to the earth, she renders twenty, thirty, and even fifty fold, whereas to the labor of the manufacturer nothing is added. Pounds of flax, in his hands, yield, on the contrary, but pennyweights of lace." But by 1816 conditions had changed to a degree that none could have foretold: "To be independent for the comforts of life we must fabricate them ourselves. We must now place the manufacturer by the side of the agriculturist." Anyone, "who is now against domestic manufacture must be for reducing us either to dependence on that foreign nation, or to be clothed in skins, and to live like wild beasts in dens and caverns. I am not one of these; experience has taught me that manufactures are now as necessary to our independence as to our comfort."[8] Henry Clay likewise appeared as an advocate of "a thorough and decided protection to home manufactures by ample duties."

Calhoun, who was to resign as Vice-President of the United States in support of his state's nullification of the tariff some years later, was like-

---

[7] Dewey, Davis R., *Financial History of the United States* (New York: Longmans, Green & Co., 1934), p. 163.

[8] Callender, G. S., *Selections from the Economic History of the United States, 1765–1860* (Boston: Ginn & Co., 1909), pp. 490–92.

wise an advocate of the protective features of this act. After reciting the evils which the war had brought on the United States because of its dependency on foreign-made commodities, he declared:

> When our manufacturers are grown to a certain perfection, as they soon will under the fostering care of Government, we will no longer experience these evils. The farmer will find a ready market for his surplus produce; and, what is almost of equal consequence, a certain and cheap supply of all his wants. His prosperity will diffuse itself to every class in the community; and, instead of that languor of industry and individual distress now incident to a state of war and suspended commerce, the wealth and vigor of the community will not be materially impaired.

Opposition came from Daniel Webster who later was to become the great champion of the protective tariff. Speaking in 1814 on the subject of manufactures, he had said: "I am their friend, but I am not for rearing them, or any other interest, in hot-beds. . . . . I feel no desire to push the capital into extensive manufactures faster than the general progress of our wealth and population propels it. I am not in haste to see Sheffields and Birminghams in America." He then expressed a fear of what might happen when laborers were forced from the farms and congregated in cities at the mercy of capitalists. Finally, he repeated the laissez faire principle: "It is the true policy of Government to suffer the different pursuits of society to take their own course, and not to give excessive bounties or encouragements to one over another. This, also, is the true spirit of the Constitution. It has not, in my opinion, conferred on the Government the power of changing the occupations of the people of different States and sections, and of forcing them into other employments."[9]

Secretary of the Treasury Alexander Dallas who prepared the bill, which with modifications downward was to become the act of 1816, classified the American industries in much the same way as Gallatin had done. In the first class he placed those which were deeply rooted and were supplying almost entirely the domestic market such as the making of carriages; wood-working of every sort; and the manufacture of hats made from all kinds of materials, iron castings, many types of firearms, window glass, products of leather, paper of many varieties, and printing type. On such goods he advocated prohibitive duties. In the second class, he included the recently established and partially established industries, which, though not supplying much of the home market, could be made to do so by legislative encouragement. In this classification belonged the coarser cotton goods, plated wares, agricultural implements, beer, ale, and spirituous liquors. In the third class, he placed the goods which were then

[9] Taussig, F. W., *Selected Readings in International Trade and Tariff Problems* (Boston: Ginn & Co., 1921), pp. 505–7.

imported almost solely from other markets—quality goods such as textiles, blankets, carpets, cutlery, chinaware—and on these he advocated revenue duties.

The act of 1816 imposed most of its rates on a specific basis and made comparatively little use of the ad valorem duties. But in connection with the latter it marked the introduction of the so-called "minimum principle" into the American tariff. In addition to the rate of 25 per cent ad valorem on cotton textiles (20 per cent after June 30, 1819), which was deemed adequate to prevent too much competition from English cloth, an odd provision was added that any cloth the original cost of which at the place whence imported was less than 25 cents a square yard was to be considered as being worth 25 cents for purposes of the duty. Its purpose was to cut off the importation of cheap cloth from India. The minimum principle was to be met again and again in the tariff laws which followed.

Table 3, which offers a comparison of the rates on eighteen classes of goods during the years 1789 to 1816, is of interest because it shows the

TABLE 3

Some Selected Items and the Duties Imposed in the Tariff Acts, 1789–1816*

Item	1789	Acts of 1804, 1807, 1808	Acts of 1812–16	Act of April 27, 1816
Cotton manufactures	free	17½%	35%	25%
Glass manufactures	10%	22½%	45%	20%
Rolled or hammered iron	7½%	17½%	35%	30%
Leather	7½%	17½%	35%	30%
Molasses, per gal.	2½ cts.	5 cts.	10 cts.	5 cts.
Sugar, brown, per lb.	1 ct.	2½ cts.	5 cts.	3 cts.
Boots, men's leather, per pair	50 cts.	75 cts.	$1.50	$1.50
Cabinet ware	7½%	15%	30%	30%
Candles, tallow, lb.	2 cts.	2 cts.	4 cts.	3 cts.
Carriages	15%	22½%	45%	30%
Earthenware	10%	17½%	35%	20%
Fish, dried, per quintal	50 cts.	50 cts.	$1.00	$1.00
Hats	7½%	17½%	35%	30%
Hemp, manufactured per cwt.	60 cts.	$1.00	$1.00	$1.50
Linen, per lb.	5%	15%	30%	35%
Nails, per lb.	1 ct.	2 cts.	4 cts.	3 cts.
Paper, writing	7⅓%	15%	30%	30%
Salt, per bushel	10 cts.	free	20 cts.	20 cts.

* Dewey, D. R., *Financial History of the United States*, p. 163. The form has been slightly modified.

increase of rates over our first tariff. Comparing the rates in 1789 with those in the act of 1816 we find that the rates on glass, molasses, carriages, earthenware, dried fish, and salt had doubled; those on brown sugar, boots, nails had trebled; those on rolled or hammered iron, leather products, cabinet ware, hats, and writing paper had quadrupled. Cotton manufactures which had been admitted free were now subject to a rate of 25 per cent

and the minimum principle, while linen also enjoyed increased protection. Although the rates in 1816 were considerably lower in a number of cases than in the acts of 1812–16, it is questionable whether the latter were effective during these trying years because of the lack of commerce.

The Period 1816–24. During the next eight years protectionist propaganda under the guise of societies for the promotion of American manufactures won many adherents. In 1818, further protection was given to the iron industry, and the reduction in textile rates was postponed until 1826. In 1819, certain reductions were made on wines. In 1820, a new general tariff bill providing for higher rates was prevented from becoming law by a single vote in the Senate.

The Act of 1824. The act of 1824 granted additional protection to the iron, glass, linen, hemp, lead, and cutlery industries and provided a specific duty on raw wool. This product was to play an increasingly important role in tariff-making. Wool manufactures were given higher rates, and the minimum principle similar to that on cotton was applied. The act also made the first use of what is called a "mixed duty," that is, the application of both an ad valorem duty and a specific duty to the same article.

During the debate on the bill, Henry Clay of Kentucky sounded the famous principle of what later was called the "American System." He held that by the imposition of duties on manufactured goods we not only obtain a revenue for the support of government and an adequate protection to American industry thereby lessening our dependence on foreign nations, but we also create a home market for farm products thus procuring "for our agriculture a just reward of its labors."

Webster again led the opposition, not as a free trader but as the representative of a commercial region, which, receiving no government aid or protection for its shipbuilding, was opposed to any further impositions which would burden that activity. He decried the emphasis on manufacturing to the exclusion of other ways of making a living, insisting that the interests of all groups be considered. Temperate as his analysis was, however, he did reach the astounding conclusion that iron manufacture "is an unproductive business" and that the American people "are not poor enough to be obliged to follow it. If we had an ignorant, idle, starving population, we might set up for iron makers against the world."[10]

The Harrisburg Convention. On July 30, 1827, the Harrisburg Convention, called by the Pennsylvania Society for the Promotion of Manufactures and the Mechanics Arts, met, with one hundred delegates present from thirteen out of the twenty-four states then in the Union. These delegates—farmers as well as manufacturers—met "to take into consideration the present state of the wool-growing and wool-manufacturing in-

[10] *Ibid.*, p. 511.

terests and such other manufactures as may require encouragement." Divided into subcommittees, they gave consideration to higher duties for wool, cotton, hemp, flax, iron, spirits, and glass.[11] Their conclusions, favorable to all except the glass industry, served to influence, in the following year, the tariff of 1828, variously known as the "Woolen Tariff," the "Tariff of Abominations," and the "Black Tariff"—a tariff characterized by John Randolph as referring "to manufactures of no sort or kind, except the manufacture of a President of the United States." This last reference throws light on the political side, as opposed to the economic side, of the tariff question.

The Tariff of 1828. Prior to this act it is probably fair to assert that the problem was primarily an economic question, but beginning in 1828 politics became more important. In a word, the bill was never intended to become a law. It was framed by a committee of seven, five of whom were "Jackson men." By means of high rates on raw materials it was thought the New England manufacturers would join with the Southerners in bringing about the bill's defeat thereby weakening the prestige of two protectionist presidential aspirants—Clay and Adams—and increasing the chances of Jackson. The strategy was to prevent any amendments, but the woolen interests were strong enough to force its passage. Raw wool was given a protective mixed rate of 40 per cent ad valorem and a specific duty of 4 cents a pound. In 1830, rates on coffee, tea, cocoa, molasses, and salt were reduced; and in 1832 those on wine were lowered.

The Tariff of July 14, 1832. "The act of 1828," says Taussig, "had thus been passed in a form approved by no one. It was hardly to be expected that a measure of this kind should long remain on the statute-book, and it was superseded by the act of 1832."[12] The opposition was not confined to any one group. George McDuffie, chairman of the Ways and Means Committee, sought a lowering of all duties above 12½ per cent ad valorem to that rate and the abolition of specific duties. The Secretary of the Treasury, Louis McLane, countered with a report suggesting a reduction of the average rate to 27 per cent from the existing rate of 44 per cent; the lowering of the rates on wool to 5 per cent and on woolens to 20 per cent; and the abolition of the minimum provisions on woolen cloth.[13] John Quincy Adams, chairman of the Committee on Manufactures, also drew up a report which became the basis for the act of 1832. This act restored the level of protection that had existed in 1824.[14] In addition, tea and coffee were placed on the free list when imported in American vessels.

[11] Jennings, Walter W., *A History of Economic Progress in the United States* (New York: Thomas Y. Crowell Co., 1926), p. 281.
[12] Taussig, *Tariff History of the United States*, p. 102.
[13] Dewey, *op. cit.*, p. 184.
[14] Taussig, *Tariff History of the United States*, p. 105.

Nullification. The act of 1828 had a profound bearing on the subsequent history of this country. Rumblings against protection, which had been heard in South Carolina for several years and which led to the legislature of that state undertaking to declare protective tariffs unconstitutional, now took the form of a threat of secession from the Union. On November 19, 1832, a convention, called by the state legislature, met in the city of Columbia and adopted the following resolutions on November 24:

> I. That the tariff law of 1828, and the amendment to the same of 1832, are null and void, and no law, nor binding upon this State, its officers or citizens.
>
> II. No duties enjoined by that law or its amendment shall be paid or permitted to be paid in the State of South Carolina after the first day of February, 1833.
>
> III. In no case involving the validity of the expected nullifying act of the legislature, shall an appeal to the Supreme Court of the United States be permitted. No copy of proceedings shall be allowed to be taken for that purpose. Any attempt to appeal to the Supreme Court may be dealt with as for a contempt of the court from which the appeal is taken.
>
> IV. Every office-holder in the State, whether in the civil or military service, and every person hereafter assuming an office, and every juror, shall take an oath to obey this ordinance, and all acts of the legislature in accordance therewith or suggested thereby.
>
> V. If the Government of the United States shall attempt to enforce the tariff laws now existing by means of its Army or Navy, by closing the ports of the State, or preventing the egress or ingress of vessels, or shall, in any way, harass or obstruct the foreign commerce of the State, then South Carolina will no longer consider herself a member of the Federal Union. "The people of this State will thenceforth hold themselves absolved from all further obligation to maintain or preserve their political connection with the people of the other States, and will forthwith proceed to organize a separate government, and do all other acts and things which sovereign and independent states may of right do."[15]

The people of South Carolina seemed wholeheartedly in favor of nullification. They elected as Governor, Robert Y. Hayne, who as Senator had engaged in the famous debate with Webster. Hayne's place in the Senate was taken by Calhoun who had resigned as Vice-President of the United States in protest against the tariff. Governor Hayne promised to carry into effect this resolution and all ordinances passed by the legislature. President Jackson, learning of the details of nullification late in November, referred to it briefly in his Message to Congress in early December, and what he said merely suggested his hope that the difficulties would be settled. But he was also working on his proclamation of December 11

[15] Young, *op. cit.*, pp. lxxxvi–lxxxviii.

in which he stated that the entire resources of the United States would be used to suppress any forcible resistance to the laws of this country. The legislature and governor countered with a resolution and proclamation unmistakably warlike in tone. On January 16, 1833, President Jackson's Message to Congress asked for any necessary powers to cope with the situation, and Congress passed an act which has since been called the "Force Act." While providing specifically for ways and means of collecting customs and giving jurisdiction of customs to the United States Circuit Courts, it also authorized the use of military and naval forces. South Carolina then postponed nullification pending Congressional action which promised tariff reform. Clay's compromise measure of 1833 led to the repeal of the Nullification Act.

Clay's Compromise Tariff of 1833. In sponsoring the compromise, Mr. Clay must have faced a great amount of criticism from his protectionist friends, and it is therefore interesting to read his "defense" of his action. After explaining that popular sentiment was opposed to the tariff "whether rightfully or wrongfully" as well as that of "the majority of the dominant party" and that the threat of civil war was in the air, he said:

> I have been represented as the father of this system, and I am charged with an unnatural abandonment of my own offspring. I have never arrogated to myself any such intimate relation to it. I have, indeed, cherished it with parental fondness, and my affection is undiminished. But in what condition do I find this child? It is in the hands of the Philistines, who would strangle it. I fly to its rescue, to snatch it from their custody, and to place it on a bed of security and repose for nine years, where it may grow and strengthen, and become acceptable to the whole people. I behold a torch about being applied to a favorite edifice, and I would save it, if possible, before it was wrapt in flames, or at least preserve the precious furniture which it contains. I wish to see the tariff separated from the politics of the country, that business men may go to work in security, with some prospect of stability in our laws, and without everything being staked on the issue of the elections, as it were on the hazards of the die.[16]

Clay's Compromise Act provided for the gradual horizontal cut of all tariff rates then in excess of 20 per cent ad valorem to be accomplished by 1842. These reductions were planned as follows: One-tenth of the excess above the 20 per cent rate was to be removed beginning December 31, 1833, followed by similar reductions December 31, in 1835, 1837, and 1839. From and after December 31, 1841, one-half of the remaining excess was to be given up, and the remaining half from and after December 31, 1842. This was in line with the Memorial to Congress adopted in October, 1831 by the Free Trade Convention held in Philadelphia and writ-

[16] Bogart, Ernest Ludlow, and Thompson, Charles Manfred, *Readings in the Economic History of the United States* (New York: Longmans, Green & Co., 1925), pp. 326–27.

ten by Albert Gallatin: "That, allowing a reasonable time for a gradual reduction of the present exaggerated duties on some articles, the duties on all the imported articles not free of duty be ultimately equalized, so that the duty on any such article shall not vary materially from the general average rate of all the duties together, or, in other words, from a uniform duty ad valorem on all imported articles subject to duty."[17]

The free list was enlarged by the addition of manufactures of bleached and unbleached linen, manufactures of silk, indigo, quicksilver, sulphur, crude saltpeter, grindstones, refined borax, emory, opium, tin in plates and sheets, gum arabic, gum senegal, lac dye, madder, madder root, nuts and berries used in dyeing, saffron, tumeric, wood or pastel, aloes, ambergris, Burgundy pitch, cochineal, camomile flowers, coriander seed, catsup, chalk, cocculus indicus, horn plates for lanterns, ox horns, other horns and tips, India rubber, manufactured ivory, juniper berries, musk, nuts of all kinds, oil of juniper, unmanufactured rattans and reeds, tortoise shell, tin foil, shellac, vegetables used principally in dyeing and composing dyes, weld, and all articles employed chiefly for dyeing, except alum, copperas, bichromate of potash, prussiate of potash, chromate of potash, nitrate of lead, aquafortis, and tartaric acid.[18] Just how meaningful this free list was —or any free list—is difficult to judge. There were, nevertheless, two concessions made to protectionist opinion. After 1842, the ad valorem rates were to be based on home valuation,[19] and after December 31, 1842, duties were to be paid in cash, thus taking away the opportunity hitherto enjoyed by importers to pay after the goods were sold.

The Act of 1842. By 1842, the country had passed through the panic of 1837 and a period of government deficits, six states being unable to meet their obligations as late as the year 1842. The compromise tariff having run its full time, the rates were again restored approximately to the level of the act of 1832. The new act was more a reflection of the quarrels of President Tyler and the Whigs than a consideration of the economic side of the tariff question. It was the third act presented to President Tyler for his signature, he having vetoed two previous tariff bills. The act contained a free list three times as long as the preceding act. Home valuation ("landed cost") was abandoned, but the cash payment of all duties was required. Another feature of the act was the provision that goods carried in non-American vessels were to be assessed an extra 10 per cent and any goods imported in foreign vessels from ports east of the Cape of Good Hope were to pay an additional 10 per cent. The act brought in a revenue

[17] Taussig, *Selected Readings in International Trade and Tariff Problems*, pp. 480–81.

[18] Young, *op. cit.*, pp. lxxxv–lxxxvi.

[19] Home valuation probably meant the same as our term "landed cost" does today. The goods were valued at the port of entry and their price would thus be augmented by the cost of packing, freight, and insurance.

which exceeded the ordinary expenditures of government and made possible a reduction of the public debt.

The Walker Report. President Polk, who took office in 1845, believed in a tariff whose rates would not be so high as to discourage importation or as to raise too much revenue. His Secretary of the Treasury, Robert J. Walker, undertook a careful inquiry into this subject, and his conclusions constituted an elaborate argument for free trade. He stated in his report that "no prejudice is felt by the Secretary of the Treasury against manufactures. His opposition is to the protective system, and not to classes or individuals. He doubts not that manufacturers are sincerely persuaded that the system which is a source of so much profit to them is beneficial also to the country. He entertains a contrary opinion, and claims for the opponents of the system a settled conviction of its injurious effects." He also sounded the free trader's conventional creed that "soil, climate, and other causes, vary very much, in different countries, the pursuits which are most profitable in each; and the prosperity of all of them will be best promoted by leaving them, unrestricted by legislation, to exchange with each other those fabrics and products which they severally raise most cheaply."

Walker maintained that a protective tariff might be unconstitutional because the Constitution gives Congress the power to lay and collect taxes for revenue purposes, and any tax which cannot be collected (for example, a prohibitory duty which keeps goods out and therefore is uncollectible; or does not yield a revenue because highly protective in character) falls short of the expressed power. The report also denied that protection raises wages of American labor and suggested that profits are raised instead. It dismissed other protectionist claims, condemned discrimination in favor of manufacturing and against agriculture, and charged that possibly two-thirds of the duties really go to the protected industries in the form of higher prices rather than to the Treasury.

Walker also criticized minimums. He said:

> Minimums are a fictitious value, assumed by law, instead of real value; and the operation of all minimums may be illustrated by a single example. Thus, by the tariff of 1842, a duty of 30 per cent ad valorem is levied on all manufactures of cotton; but the law further provides that cotton goods "not dyed, colored, printed, or stained, not exceeding in value twenty cents per square yard, shall be valued at twenty cents per square yard." If, then, the real value of the cheapest cotton goods is but four cents a square yard, it is placed by the law at the false value of twenty cents per square yard, and the duty levied on the fictitious value—raising it five times higher on the cheap article consumed by the poor, than upon the fine articles purchased by the more wealthy . . . .

Finally he laid down the following six principles for the improvement of revenue laws:

1. That no more money should be collected than is necessary for the wants of the government, economically administered.
2. That no duty be imposed on any article above the lowest rate that will yield the largest amount of revenue.
3. That below such rate discrimination may be made, descending in the scale of duties; or, for imperative reasons, the article may be placed in the list of those free from all duty.
4. That the maximum revenue duty should be imposed on luxuries.
5. That all minimums, and all specific duties, should be abolished, and ad valorem duties substituted in their place—care being taken to guard against fraudulent invoices and under-valuation, and to assess the duty upon the actual market value.
6. That the duty should be so imposed as to operate as equally as possible throughout the Union, discriminating neither for or against any class or section.[20]

The Act of 1846. The tariff of 1846, which resulted from the adoption of Walker's plan, is unique in American tariff history for its brevity—less than 5,000 words—and for the further fact that it is the only tariff virtually drafted by the executive as opposed to the legislative branch. All imported commodities were classified under schedules designated by the letters A, B, C, D, E, F, G, H, and I. Schedule A included all commodities subject to a rate of 100 per cent—e.g. brandy and spirits. Schedule B commodities, those paying 40 per cent, included spices, preserved fruits, meats, cigars, snuff, manufactured tobacco. Similarly, Schedule C commodities paid 30 per cent and included iron and manufactures of other important metals, wool and woolens, glass, and paper. Schedule D paid 25 per cent, Schedule E, 20 per cent, and Schedule F, 15 per cent. These together with Schedule C accounted for the bulk of imports. Products such as watches, diamonds, books, and building stones were placed in Schedule G and paid 10 per cent. Schedule H was a sort of catchall classification assessing at 5 per cent various manufactured and partially manufactured goods used in industry. The free list, Schedule I, included coffee, tea, etc. Ad valorem rates were thus emphasized. Specific rates and fictitious minimums were abolished. The warehousing system was introduced to facilitate commerce. Under this system imported goods could be stored duty free until withdrawn either for home use or for re-export.

It is worth remembering that it was in connection with the debate on the tariff of 1846 that Daniel Webster gave up his advocacy of free trade and became a protectionist. Referring to the charge of inconsistency hurled against him by his opponents, he remarked: "If it be an inconsistency to hold an opinion upon a subject at one time and in one state of circumstances, and to hold a different opinion upon the same subject at an-

[20] Bogart and Thompson, *op. cit.*, p. 328.

other time and in a different state of circumstances, I admit the charge." Furthermore, he pointed out that he was representing a community that "up to the year 1824 . . . . being addicted to commerce, their capital being very much engaged in commerce, were averse to entering upon a system of manufacturing operations."[21]

The Act of 1857. The Act of 1857 was a revision downward of from 20 to 25 per cent, the result of redundant revenue (about $7,000,000 per year) rather than any attempt at reform. The act, which contained a longer free list than its predecessors, aimed at 24 per cent as the highest protective duty and in general was lower than any set of rates since 1816. The tariff structure remained the same, but the rates for schedules were reduced. The new rates on articles in Schedules A and B (formerly 100 per cent and 40 per cent were reduced to 30 per cent, the 30 per cent rate of C became 24 per cent, that of D became 19 per cent instead of 25 per cent; that of E, formerly 20 per cent, now became 15 per cent, the 15 per cent rate of F became 12 per cent; the 10 per cent rate of G became 8 per cent; and the 5 per cent rate of Schedule H was reduced to 4 per cent. This act had been in effect only a few months when the Panic of 1857 swept over the country. Many blamed the new tariff, while others referred to the slow poison of the Act of 1846. This together with Treasury deficits in 1858 and a Republican plurality in 1859 laid the basis for a return to protection. The Act of 1857 remained in effect until superseded by that of 1861.

SUMMARY

July 4, 1789.—The preamble of our first tariff read: "Whereas it is necessary for the support of the government, for the discharge.of the debts of the United States, and the encouragement and protection of manufactures that duties be laid . . . ."

Even before the President was inaugurated or the Treasury Department was established, the need for revenue and care of debt was presented to Congress. Taxation was to be applied *first* to foreign trade because

1. The country was opposed to internal taxation.
2. Local taxes fell on property.
3. Export taxes were prohibited by the Constitution.
4. Direct taxes could not be laid until the census was completed.

Spring importation was about to begin and hope was for quick action But seven weeks' debate followed. Duties were chiefly on molasses, distilled spirits, iron and steel, nails, candles, hemp, and cotton.

[21] Taussig, *Selected Readings in International Trade and Tariff Problems*, pp. 512–13.

The act enumerated about thirty kinds of commodities. Ad valorem rates varied from 7½ to 15 per cent. Some of the specific duties were: cocoa—1 cent a pound; tea—6 cents to 20 cents a pound. They also covered coffee, molasses, steel, Jamaica liquor, refined sugar, hemp, nails, salt, boots and shoes, playing cards, candles, soap, snuff, malt.

The act included important administrative details, one of which was that it was to run seven years—an indication that Congress was not prepared to adopt any definite policy of high or low tariff.

Small changes and additions followed in 1790, 1791, and 1792. Other acts were passed in 1804, 1807, 1808, 1812. The Embargo, Nonintercourse Act, and War of 1812 marked the turning point in American industrial history. Their effect was akin to high protection or prohibitory duties.

Gallatin's *Report* in 1810 revealed that some manufactures were firmly established, some in process, some newly begun, etc. It suggested bounties, premiums, loans, and tariff protection. Between 1792 and 1816 there were twenty-five tariff alterations.

Tariff of 1816.—April 27th. There was a feeling that manufacturers should be protected against English competition, but this lasted only for a limited period. The Act was the first unqualifiedly protectionist tariff in our history and the last tariff voted on from a broad national outlook. It was supported by all parts of country. Even South Carolina voted four to three in its favor.

Some of the rates included 25 per cent on cotton manufactures; 20 per cent on glass manufactures; 30 per cent on rolled or hammered iron; 30 per cent on leather; 5 cents a gallon on molasses; $1.50 a pair on men's boots; 3 cents a pound on candles; 30 per cent on carriages; 20 per cent on earthenware; 35 per cent on linen; 20 cents a bushel on salt.

1818.—Higher rates for iron industry were voted at this time.

Act of 1824.—A clash of sectional interests was revealed. Woolgrowers first appeared as an important factor in tariff-making. Duties were raised on wool, iron, hemp, lead, glass, silk, linen, cutlery, spices. Says Dewey: "Iron, wool, hemp, glass, and lead were allied against commerce."

1827.—The Harrisburg Convention promulgated a memorial to Congress and to the people of the nation for a thoroughgoing protectionist policy.

Act of 1828.—This act was called variously the "Woolen Tariff," the "Tariff of Abominations," the "Black Tariff." Politics made itself felt in

the protectionist movement—the Adams Whigs versus the Jackson Democrats. John Randolph comments: "The bill referred to manufactures of no sort or kind, except the manufacture of a President of the United States." It contained first important use of mixed duties. (The mixed duty was used first in the act of 1824 which provided the rate on raw wool of 40 per cent ad valorem and 4 cents a pound.)

As early as 1825 the South Carolina Legislature had adopted resolutions declaring protective duties unconstitutional. In 1827 the policy of nullification was proposed in public at a dinner. In 1828 mass meetings were held throughout the state. In 1832 South Carolina passed the Nullification Act providing: "that the tariff law of 1828 and the amendment to the same of 1832 are null and void and no law, nor binding upon this State, its officers, and citizens." Calhoun resigned as Vice-President and was elected Senator.

The Act of 1832 put protection back to the level of 1824.

Act of 1833.—Clay's Compromise recognized the principle of the horizontal rate which South Carolina regarded essential to revision. Gradual enough for manufacturers to adjust themselves, all reductions of duties exceeding 20 per cent were to be accomplished by 1842. The free list was enlarged. Home valuation was to be used after 1842.

Period of Speculation.—The period was marked by Jackson and the Bank War, the Panic of 1837, and bad government finances. There was a chance for protectionists who decided, however, to wait until 1840.

The Act of 1842 contained a free list three times as long as before. Home valuation was abandoned. Cash payment of all duties was required. Ten per cent was to be added when goods were carried in non-American ships. The scale of duties was not substantially different from 1832. Business improved. In 1844 good times returned. Revenue exceeded ordinary costs of government. The public debt was reduced. "Thus the act vindicated itself in every possible way."

Period of Forties.—The tariff appeared as a distinct party question. President Polk emphasized his "cardinal principle" not to levy a duty so high as to cut off importation or to raise too much revenue.

Secretary of Treasury Walker's Report to Congress, December 1845, included the following points:

1. Questions constitutionality of protection. Power to lay and *collect.* Therefore an uncollectible tax (prohibitory duty) is unconstitutional.

2. A tariff bill is to raise revenue. Otherwise it violates its purpose.
3. Revenue should be raised by taxing luxuries.
4. Protective tariff does not augment wages.
5. It augments profits.
6. Present tariff unjust. Favors manufactures against agriculture.
7. Minimums are fictitious values.
8. Two-thirds of taxes go to protected classes and not to Treasury.
9. Occasional fall in price of some protected article not necessarily a proof that tariff had this effect.
10. Let each region produce the thing it is best fitted by nature to produce.

Congress accepted all of Walker plan. The Act of 1846 is remarkable for brevity—less than 5,000 words. It was the only tariff practically drafted by the executive. It showed tendency to emphasize ad valorem rates. Protectionist principles appear in some sections in spite of free-trade character. It established government warehouses. Webster ceased his free-trade emphasis and turned protectionist.

The tariff was divided into schedules designated by letters of the alphabet:

A. Included brandy, spirits, etc., 100 per cent ad valorem.
B. Spices, preserved fruits and meats, cigars, snuff, manufactured tobacco. 40 per cent ad valorem for everything under this classification.
C, D, E, and F. Included the great bulk of commercial products. Taxed 30, 25, 20, and 15 per cent respectively.
G. Books, building stones, diamonds, watches, 10 per cent.
H. Various manufactured articles, or those in a low state of manufacture and used in existing industries, 5 per cent.
I. Coffee, tea, copper ore, and a few other commodities. Duty free.

This act remained basic until 1857. Then further reductions were made because of abundant revenue. The Act of 1857 passed easily. There was no political angle.

Seven party platforms in 1848, 1852, and 1856 had no reference to tariff except a minor one to some specific duties to aid industry in the Whig platform of 1852.

Panic of 1857.—The period was marked by a suspension of specie, and railroad bankruptcies. Some blamed the lower rates of 1857 and others the slow poison of the act of 1846. But the act of 1857 had only been in effect a few months. The other tariff had been passed at the urgent solicitation of the manufacturers, especially the woolen industry.

1858.—After a series of treasury deficits, Morrill said: "The government was obliged to go to bed without its supper every time the imports of the week fell short a million at the port of New York."

1859.—A Republican plurality in the election promised tariff changes.

QUESTIONS FOR DISCUSSION

1. Why was a tariff on imports the most obvious and logical source of revenue for the United States in 1789?
2. Was the tariff of 1789 a protective or a revenue tariff? Explain. Of what significance is the answer to this question? What were some of the important provisions of this first tariff?
3. Discuss those aspects of international relations between 1793 and 1816 which affected commerce, and point out the effects of these developments on the trend of United States tariff policy.
4. What changes in his attitude toward the protective tariff occurred during the career of Thomas Jefferson? Of John C. Calhoun? Of Daniel Webster? Account, in each of these cases, for the change of mind. Do these "about faces" lead you to any conclusion concerning the "philosophy" of laissez faire?
5. What were some of the chief characteristics of the tariff of 1816?
6. Explain Clay's "American System."
7. Describe the political factors leading to the adoption of the "Tariff of Abominations." What was the Nullification Ordinance? What was the purpose and nature of the Compromise Tariff of 1833?
8. What were the salient features of the report of Secretary Walker which led to the tariff of 1846? Discuss the interesting suggestion in this report concerning the constitutionality of a protective tariff.
9. Explain "minimum principle"; "mixed duty"; "home valuation"; "warehouse system." In what tariff law was each of these devices first used?

Chapter XII

THE TARIFF POLICY OF THE UNITED STATES: 1861–1914

Introduction. In this chapter we continue our survey of the tariff as a policy of the United States for the period from the Civil War to World War I. The treatment of the subject will be the same except that the political aspects of the problem will become somewhat clearer than in the previous period because of the continuous existence from 1861 to the present of the same two major political parties which have set up the tariff as one of the major differences between them. Although the Republican party has become synonymous with the protective tariff while the Democratic party is equally famous for its advocacy of a revenue tariff, the line between them is by no means always distinct. Contrary to careless opinion, no major free-trade movement has ever existed in this country. Ours has never been the controversy between free trade and protection or between a tariff and no tariff. We have accepted the tariff system. The controversy has been over a high or a low tariff, the treatment of raw materials, and related topics.

Some Particular Introductory Considerations. Someone has remarked that a person gets his religious belief from his grandmother and his political belief from his grandfather. There is just enough truth, at least in the second half of the statement, to justify the generality that many are "born" with, or inherit, an allegiance to one or the other of the political parties. This allegiance, of course, may be switched on grounds of conviction, yet, except for landslides, this does not occur with any great frequency. As a result of each party's aligning itself with a tariff attitude, it follows that many people in this country are "born" with a belief in a particular kind of tariff. Thus, the accident of birth goes far toward determining the use of that dangerous and yet delicate economic tool known as the "tariff"!

Now if we add to this situation another, namely, the setup of our system of government which provides for an election of a president every four years, we face a potential tariff change every four years, even though the same party is returned to power, or a complete change of policy, should the other party win the election. This situation is peculiar to the United States where every tariff bill is framed, debated, and passed as a new law, much as if no previous legislation existed. This holds true even

when the same political party undertakes "a revision," and it differs from those in other countries where one law may remain basic for decades at a time with only amendments to bring it in harmony with changing conditions.

Our system has caused the subject of the tariff to be more fully debated here than anywhere else and has usually merited for the subject an important place in the pre-election party platforms. In this chapter, accordingly, we have printed these tariff planks for the two parties immediately preceding our discussion of each bill or act.[1] In this way, the reader can get a much fuller appreciation of the political side of the policy and some idea as to how the planks were carried out. We shall not comment on the merits of the arguments which they contain at this point, however. This will be the concern of a later chapter dealing with tariff arguments.

The Civil War Period and the Tariff. The tariff bill which was to become the act of March 2, 1861, was introduced by Representative Justin S. Morrill of Vermont and was passed by the House a few weeks before the Republican presidential convention was held and before the platform was written. The platform of the Democratic party made no reference to the tariff, while the following statement appeared in that of the Republican Party: "That, while providing revenue for the support of the General Government by duties upon imports, sound policy requires such an adjustment of these imports as to encourage the development of the industrial interests of the whole country: . . . ." This set of circumstances, according to Professor Dewey, "was undoubtedly a factor which won Pennsylvania from the Democracy and elected Lincoln president in November."[2]

The tariff passed the Senate as well, with little change, before the outbreak of war and cannot, accordingly, be regarded as a war measure—although the Southern Senators had already withdrawn when it passed the Senate. The purpose of its framers was merely to restore the rates of 1846. Consequently, almost every month of the war witnessed some modifications either in the tariff or in some other revenue act because of the tremendous needs of the treasury.[3] Changes in the tariff were made in the summer session of Congress in 1861 when rates were advanced and duties imposed on tea and coffee, again in December of that year, and again in July of 1862. A joint resolution on April 29, 1864, increased virtually all

[1] The reader will find such platforms as were written prior to 1860 in the note at the end of this chapter. Thomas H. McKee has rendered a distinct service by publishing our party platforms in his *The National Conventions and Platforms of All Political Parties, 1789–1906* (Baltimore: The Friedenwald Press, 1906).

[2] Dewey, Davis R., *Financial History of the United States* (New York: Longmans, Green & Co., 1934), p. 266. See also Taussig, F. W., *Tariff History of the United States* (New York: G. P. Putnam's Sons, 1914), p. 158.

[3] Taussig, *op. cit.*, p. 160.

duties for a period of sixty days by 50 per cent. The act of June 30, 1864, also introduced by Mr. Morrill, although "crude and ill-considered,"[4] having been passed in five days, remained the basis of our tariff policy until 1883. It raised the average rate to 47 per cent and enumerated 1,450 separate articles.

The Period from 1864 to 1883. In the campaign of 1864, the Democratic platform read as follows:

> The Democratic party . . . . with the return of peace demand . . . . : Economy in the administration of the Government and a tariff for revenue upon foreign imports, and such equal taxation under the internal revenue laws as will afford incidental protection to domestic manufactures and as will without impairing the revenue, impose the least burden upon, and best promote and encourage, the great industrial interests of the country.

The Republican party, however, returned to power. On March 3, 1865, compound duties were placed on cotton manufactures, together with increases on certain other products. Other changes occurred in 1866 and 1867. It is important to remember that, while some of the increases had taken place to offset increases in domestic taxation, the former remained after the latter were repealed.

In the campaign of 1868, there was no mention of the tariff in the Republican platform. The Democrats, however, stated their belief in "a tariff for revenue upon foreign imports, and such equal taxation under the internal revenue laws as will afford incidental protection to domestic manufacturers, and as will, without impairing the revenue, impose the least burden upon, and best promote and encourage, the great industrial interests of the country."

On July 14, 1870, a part of the revenue act reduced rates on some revenue-yielding items (tea, coffee, sugar, molasses, wine, spices, and pig iron) and increased a few duties. In 1865, David A. Wells had been appointed chairman of a commission which was to function until 1870, the purpose of which was "to inquire and report at the earliest practicable moment upon the subject of raising, by taxation, such revenue as may be necessary in order to supply the wants of the government." It is interesting to note that, although a protectionist when he started his work, he ended as an avowed free trader. In 1871, the Senate, taking a House bill of less than four lines in length and confined to repealing the tariff on tea and coffee, attempted to substitute for it a twenty-page bill providing for a general revision involving some reduction and some repeal, not only of the customs, but of internal revenue rates as well. The attempt failed.[5]

---

[4] *Ibid.*, p. 167.
[5] Dewey, *op. cit.*, p. 536.

The Horizontal Cut in 1872. A redundant revenue in the two fiscal years beginning in 1870 amounting annually to $100,000,000 over and above all appropriations and interest charges on the public debt made a revision of the revenue laws necessary. Professor Taussig relates that: "The government was buying bonds in the open market in order to dispose of the money that was flowing into the treasury vaults."[6] A bill introduced into the House provided for reduced tariff rates although retaining the protective principle. The Senate, however, was considering its own bill that provided for a horizontal reduction of 10 per cent on protected items; and this plan proved victorious. It was accompanied by a drastic reduction of other sources of revenue as well. Accordingly, on May 1, 1872, tea and coffee were placed on the free list, and during the following month, the act of 1872 was passed. This act provided for the horizontal cut mentioned above along with reductions in the rates on salt and coal. Some enlargement of the free list was also included. Dewey calls this reduction "hasty and ill-advised." He points out that the loss of revenue on tea and coffee alone amounted to $20,000,000 per year and that customs receipts fell in two years from $216,000,000 in 1872 to $163,000,000. Part of this was due, of course, to the Panic of 1873.[7] On March 3, 1875, Congress repealed the 10 per cent cut, thus restoring the earlier level of rates. "The repeal," remarks Taussig, "attracted comparatively little attention, and was carried without great opposition."[8]

The Platforms of 1872. In 1872, the Republican platform included the following plank: "The annual revenue, after paying current expenditures, pensions, and the interest on the public debt, should furnish a moderate balance for the reduction of the principal, and that revenue, except so much as may be derived from a tax on tobacco and liquors, should be raised by duties upon importations, the details of which should be so adjusted as to aid in securing remunerative wages to labor, and promote the industrial prosperity and growth of the whole country."

The Democratic plank straddled the issue in the following manner:

> We demand a system of Federal taxation which shall not unnecessarily interfere with the industry of the people, and which shall provide the means necessary to pay the expenses of the Government, economically administered, the pensions, the interest on the public debt, and a moderate reduction annually of the principal thereof; and recognizing that there are in our midst honest but irreconcilable differences of opinion with regard to the respective systems of protection and free trade, we remit the discussion of the subject to the people in their Congressional districts, and to the decision of the Congress thereon, wholly free from executive interference or dictation.

---

[6] Taussig, *op. cit.*, p. 181.
[7] Dewey, *op. cit.*, p. 398.
[8] Taussig, *op. cit.*, pp. 190–91.

The Platforms of 1876. The Republican platform provided: "The revenue necessary for current expenditures and the obligations of the public debt must be largely derived from duties upon importations, which, so far as possible should be adjusted to promote the interests of American labor and advance the prosperity of the whole country."

The platform of the Democrats, in turn, was very critical in tone:

> We denounce the present tariff, levied upon nearly 4,000 articles, as a masterpiece of injustice, inequality, and false pretense. It yields a dwindling, not a yearly rising revenue. It has impoverished many industries to subsidize a few. It prohibits imports that might purchase the products of American labor. It has degraded American commerce from the first to an inferior rank on the high seas. It has cut down the sales of American manufactures at home and abroad, and depleted the returns of American agriculture—an industry followed by half our people. It costs the people five times more than it produces to the Treasury, obstructs the processes of production, and wastes the fruits of labor. It promotes fraud, fosters smuggling, enriches dishonest officials, and bankrupts honest merchants. We demand that all custom-house taxation shall be only for revenue.

The Platforms of 1880. The tariff planks in the platforms were noteworthy in 1880 for their brevity. All that the Republicans had to say was: "We reaffirm the belief avowed in 1876, that the duties levied for the purpose of revenue should so discriminate as to favor American labor . . . ."

The Democrats, in turn, declared: "The Democrats of the United States, in convention assembled, declare . . . . (for) a tariff for revenue only."

The Act of 1883. The country having enjoyed a return of prosperity in 1878, attention was turned once again to the problems of surplus revenue. The Republicans being in control of Congress, a Tariff Commission, consisting of nine members, a majority of whom were protectionists, was appointed in 1881. Its chairman was John L. Hayes, the secretary of the Wool Manufacturers' Association, while among the members was a sugar producer and a prominent iron manufacturer. Having held 78 days of session in 29 different cities and listened to 604 witnesses whose testimony filled 2,625 pages, the committee issued its report in which it stated its conviction "that a substantial reduction of tariff duties is demanded, not by a mere indiscriminate popular clamor, but by the best conservative opinion of the country, including that which has in former times been most strenuous for the preservation of our national industrial defenses." The substantial reduction aimed at was not less than 20 per cent on the average and was to be brought about both by an enlargement of the free list and by the abolition of certain duties. This meant that for some commodities the reduction would be slight but for others the rates would be reduced by one-half or more. That the report was moderate in its sugges-

tions may be deduced from the assumptions of the Commission, namely, that the tariff was an American policy, that vested interests were to be protected, and that the Commission was to work along lines already established rather than to suggest a scientific tariff. At the same time, the report reads: "No rates of defensive duties, except for the establishment of new industries, which more than equalize the conditions of labor and capital with those of foreign competitors can be justified. Excessive duties, or those above such standard of equalization, are positively injurious to the interest which they are supposed to benefit. They encourage the investment of capital in manufacturing enterprise by rash and unskilled speculators."

That the report had little influence is shown by the fact that the act when passed reduced existing rates about 5 per cent—a fair number of the reductions being on unimportant items. There were, indeed, some increases on better qualities of woolen and cotton fabrics and on iron, while rates on agricultural products remained about the same. The act in its final form bore little resemblance to the House bill. It was virtually a Senate bill disguised as an amendment to the House bill and appended to the revenue bill. "Probably," remarks Jennings, "the measure passed only because it provided for reductions in the internal revenue duties"—abolishing old war taxes on bank deposits, matches, etc., and reducing by one-half the tax on tobacco.[9]

The Platforms of 1884. The Republican platform of 1884 set forth the following plank on the subject of the tariff:

It is the first duty of a good Government to protect the rights and promote the interests of its own people.

The largest diversity of industry is most productive of general prosperity and of the comfort and independence of the people.

We, therefore, demand that the imposition of duties on foreign imports shall be made not "for revenue only," but that in raising the requisite revenues for the Government such duties shall be so levied as to afford security to our diversified industries and protection to the rights and wages of the laborer, to the end that active and intelligent labor, as well as capital, may have its just reward and the laboring man his full share in the National prosperity.

Against the so-called economic system of the Democratic party, which would degrade our labor to the foreign standard, we enter our earnest protest.

The Democratic party has failed completely to relieve the people of the burden of unnecessary taxation by a wise reduction of the surplus.

The Republican party pledges itself to correct the inequalities of the tariff and to reduce the surplus, not by the vicious and indiscriminate process of horizontal reduction, but by such methods as will relieve the taxpayer without injuring the labor or the great productive interests of the country.

[9] Jennings, Walter W., *A History of Economic Progress in the United States* (New York: Thomas Y. Crowell Co., 1926), p. 459.

We recognize the importance of sheep-husbandry in the United States, the serious depression which it is now experiencing, and the danger threatening its future prosperity; and we, therefore, respect the demands of the representatives of this important agricultural interest for a readjustment of duties upon foreign wool in order that such industry shall have full and adequate protection.

The Democratic platform charged, in turn:

(The Republican party) pledges to correct the irregularities of tariff—it created and has continued them. Its own tariff commission confess the need of more than twenty per cent reduction—its Congress gave a reduction of less than four per cent. It professes the protection of American manufactures—it has subjected them to an increasing flood of manufactured goods and a hopeless competition with manufacturing nations, not one of which taxes raw materials. It professes to protect all American industries—it has impoverished many to subsidize a few. It professes the protection of American labor—it has depleted the returns of American agriculture and industry followed by half our people . . . .

Knowing full well, however, that legislation affecting the operations of the people should be cautious and conservative in method, not in advance of public opinion, but responsive to its demands, the Democratic party is pledged to revise the tariff in a spirit of fairness to all interests. But, in making reduction in taxes, it is not proposed to injure any domestic industries, but rather to promote their healthy growth. From the foundation of this Government taxes collected at the custom house have been the chief source of Federal revenue. Such they must continue to be. Moreover, many industries have come to rely upon legislation for successful continuance, so that any change of law must be at every step regardful of the labor and capital involved. The process of the reform must be subject in the execution to this plain dictate of justice—all taxation shall be limited to the requirements of economical government. The necessary reduction and taxation can and must be effected without depriving American labor of the ability to compete successfully with foreign labor and without imposing lower rates of duty than will be ample to cover any increased cost of production which may exist in consequence of the higher rate of wages prevailing in this country. Sufficient revenue to pay all the expenses of the Federal Government economically administered, including pensions, interest, and principal of the public debt, can be got under our present system of taxation from the customhouse taxes on fewer imported articles, bearing heaviest on articles of luxury and bearing lightest on articles of necessity. We, therefore, denounce the abuses of the existing tariff; and, subject to the preceding limitations, we demand that Federal taxation shall be exclusively for public purposes, and shall not exceed the needs of the Government economically administered.

The Election of Cleveland. The election of 1884 placed the Democratic party in power for the first time since the Civil War, but between 1884 and 1886, in spite of six attempts in Congress and by President Cleve-

land to bring about a reduction in rates, no legislation was passed. Finally, in 1887, the President devoted his Message to Congress to the subject of the tariff. "Mr. Cleveland's decided and outspoken attitude," according to Professor Taussig, "had the effect of committing his party unreservedly to a policy of opposition to the existing protective system."[10]

President Cleveland's Message: 1887. In his Message, the President pointed to a superabundant revenue. The public treasury, he declared, "becomes a hoarding-place for money needlessly withdrawn from trade and the people's use," and he demanded that "our present tariff laws, the vicious, inequitable, the illogical source of unnecessary taxation, ought to be at once revised and amended." He charged further that protection enabled the domestic producer to exact higher prices because of high duties and thus compelled the users of domestic products to pay more as well as the users of the imported product, few though they might be in number. But it was only the extra amount paid for the imported product that enriched the public treasury. He cautioned against a sudden or careless revision, nevertheless, which might harm existing manufacturing interests, but at the same time he was extremely critical of interests that opposed all change:

> So stubbornly have all efforts to reform the present condition been resisted by all those of our fellow-citizens (engaged in protected industries), that they can hardly complain of the suspicion, entertained to a certain extent, that there exists an organized combination all along the line to maintain their advantage.
>
> . . . .
>
> Our progress toward a wise conclusion will not be improved by dwelling upon the theories of protection and free trade. This savors too much of bandying epithets. It is a condition which confronts us—not a theory. Relief from this condition may involve a slight reduction of the advantages which we award our home productions, but the entire withdrawal of such advantages should not be contemplated. The question of free trade is absolutely irrelevant; and the persistent claim made in certain quarters, that all efforts to relieve the people from unjust and unnecessary taxation are schemes of so-called free-traders, is mischievous and far removed from any consideration for the public good.

The chairman of the Ways and Means Committee, a free trader named Roger Mills, introduced what has since been called the "Mills bill." It passed the House but was so changed in the Senate that, when in its new form it was returned to the House, the latter refused to consider it, alleging that it was a new bill for raising revenue having originated in the Senate instead of the House. For example, the House bill placed wool on the free list and proposed abolition of specific duties on woolen goods, while the Senate not only did not recognize free wool but actually moved the rates above those of 1883.

[10] Taussig, *op. cit.*, p. 253.

Some idea of the Republican attitude toward protection and free trade may be gleaned from the speech of William McKinley on the Mills bill, one portion of which speaks for itself:

> From 1789 to 1888, a period of ninety-nine years, there have been forty-seven years when a Democratic revenue-tariff policy has prevailed, and fifty-two years under the protective policy, and it is a noteworthy fact that the most progressive and prosperous periods of our history in every department of human effort and material development were during the fifty-two years when the protective party was in control and protective tariffs were maintained; and the most disastrous years—years of want and wretchedness, ruin and retrogression, eventuating in insufficient revenues and shattered credits, individual and national—were during the free-trade or revenue-tariff eras of our history.

In the same speech McKinley sounded the keynote for the campaign in the fall of that year (1888)—that of pauper labor. Charging that labor here is paid more than abroad, he insisted that the "tariff must be maintained to maintain the difference of wages or one of two things must inevitably occur: we must abandon production in many of the most valuable fields of industry here or our labor must come down to the standard of the competing labor." It is interesting that Stanwood approaches the subject of the act of 1890 with the words, "The period was a harvest-time for economic quackery, an era of success for loose thinking."[11] But the reader of tariff history and commercial policy can only agree and ask, "Has there ever been a period free from this?"

The Platforms of 1888. The campaign of 1888 was the only one since the Civil War in which the Democratic party held its convention before the Republican party. Accordingly, we print the Democratic party tariff plank first. The platform pledged tariff reform:

> Our established domestic industries and enterprises should not and need not be endangered by the reduction and correction of the burdens of taxation. On the contrary, a fair and careful revision of our tax laws, with due allowance for the difference between the wages of American and foreign labor, must promote and encourage every branch of such industries and enterprises by giving them assurance of an extended market and steady and continuous operations. In the interests of American labor, which should in no event be neglected, the revision of our tax laws contemplated by the Democratic party should promote the advantage of such labor by cheapening the cost of necessaries of life in the home of every working-man and at the same time securing to him steady and remunerative employment. Upon this question of tariff reform, so closely concerning every phase of our national life, and upon every question involved in the problem of good government, the Democratic Party submits its principles and professions to the intelligent suffrages of the American people.

[11] Stanwood, Edward, *American Tariff Controversies in the Nineteenth Century* (Boston: Houghton Mifflin Co., 1903), Vol. II, p. 245.

The Republican platform of 1888 promised, in turn: "The Republican Party would effect all needed reduction of the national revenue . . . . by such revision of the tariff laws as will tend to check imports of such articles as are produced by our people, the production of which gives employment to our labor, and release from import duties those articles of foreign production (except luxuries) the like of which can not be produced at home."

The McKinley Tariff of 1890. President Harrison had recommended tariff revision in his Message to Congress, and McKinley, who was chairman of the Ways and Means Committee, introduced a bill "To Reduce the Revenue and Equalize Duties on Imports, and for Other Purposes." In submitting the bill, he was quite candid in stating that the "exact effect upon the revenues of the Government of the proposed bill is difficult of ascertainment" but that he was quite sure that there would be "a substantial reduction." He also admitted that his committeemen were not "so much concerned about the prices of the articles we consume" as they were "to encourage a system of home production which shall give fair remuneration to domestic producers and fair wages to American workmen, and by increased production and home competition insure fair prices to consumers."

After the bill passed the House and went to the Senate, it was subjected to 496 amendments—some involving mere phraseology and some involving the rates themselves. In this form, the bill was turned over to a conference committee representing both Houses. The representatives agreed to 272 amendments, compromised on 173 of them, and disallowed 51.[12] The revised bill passed both Houses and became a law on October 1, 1890. Its passage cannot be disassociated from the Sherman Silver Purchase Act since the advocates of each measure gave the other measure support in return for necessary votes.

The act of 1890 raised tariff protection to a rate of practically 50 per cent—a protection motivated, not in the spirit of Hamilton and Clay for infant industries (and therefore temporary), but in the spirit of a permanent policy. This was due in part to President Cleveland's stand which made the revenue tariff a Democratic principle and forced the Republicans to accept, even more clearly than they had previously accepted, the principle of protection. The act raised the rates on wool, woolens, and woolen products. Cloth that was worth 30 cents a pound or less was subjected to a duty of 33 cents a pound and 40 per cent ad valorem; that valued from 30 to 40 cents paid a duty of 38.5 to 40 per cent; while that selling for over 40 cents paid at the rate of 44 cents per pound and 50 per cent ad valorem. Cotton cloth, similarly, if worth 15 cents per yard or less was admitted on the payment of 7 cents per yard and 40 per cent ad valorem,

[12] Jennings, *op. cit.*, p. 461.

while, if of a better quality, the duty was 8 cents per yard and 50 per cent. The rates on linen were increased from 35 per cent to 50 per cent, while those on linen laces, and so on, were doubled.

The act made use of the minimum principle not only in textiles but in the case of a number of other products. The objection to the minimum principle, aside from its fictitious character, is the tendency on the part of the exporter to price his goods near the minimum point and the tendency on the part of the importer to undervalue them.[13]

The changes in the agricultural schedule involved an increase in the duty on wheat from 20 to 25 cents per bushel, on Indian corn from 10 to 15 cents, and increases on potatoes and eggs—changes which Professor Taussig calls "innocuous." A more important change, however, was the raising of the rate on barley from 10 to 30 cents per bushel. The change in the sugar policy was dictated by the desire to cut down surplus government revenues; and it was logical to modify the rate on sugar, the largest source of customs accounting for from $50,000,000 to $60,000,000 each year. Raw sugar, consequently, was placed on the free list, while refined sugar was subjected to a rate of ½ cent per pound. In place of a sugar duty which had amounted to about 2 cents per pound, the government undertook to pay a bounty of 2 cents per pound on all domestic sugar produced between July 1, 1891 and July 1, 1905.

A Curious Feature of the Act of 1890. The act of 1890 made use of a curious provision of a conditional duty never used before or since that time. In the case of tin plate, none had been manufactured in the United States prior to 1890. Large annual imports came in the face of duties varying from 15 to 30 per cent. The new tariff levied a specific rate of 2²⁄₁₀ cents per pound—at that time about 70 per cent ad valorem—this rate to continue, however, provided that tin plate production at home should equal one-third of the annual importation during any year prior to July 1, 1897. Failure of the industry to accomplish this would mean the free admission of tin plate after 1897. It is interesting that "very much more" than the required one-third was produced within three years, and the industry survived in spite of the act of 1894 which not only swept away these provisions but cut the rate in half.[14]

Reciprocity Provisions. One other significant feature of the act was the reciprocity provisions. The President was given authority to impose by proclamation (and therefore without the necessity of Senate ratification) certain duties on selected products whenever he found that any country exporting such articles to the United States "imposes duties or other exactions on the agricultural or other products of the United States,

[13] Taussig, *op. cit.*, p. 270.
[14] Taussig, F. W., *Some Aspects of the Tariff Question* (Cambridge, Mass.: Harvard University Press, 1931), p. 177.

which, in view of the free introduction of sugar, molasses, tea, coffee, and hides into the United States, he may deem to be reciprocally unjust or unreasonable." The retaliatory rates consisted of duties amounting to 3 cents per pound on coffee, 10 cents per pound on tea, 1½ cents per pound on hides, and a little over 1 cent per pound on raw sugar. Agreements were reached with Brazil, Guatemala, Salvador, Nicaragua, the Dominican Republic, and Honduras; with Spain for Cuba and Puerto Rico; with Great Britain for Jamaica, Trinidad, Barbados, and the British Guiana; and with Germany and Austria-Hungary. Only three countries were subjected to the proclamation duties—Venezuela, Colombia, and Haiti. For practical purposes, however, the reciprocity provisions of the act of 1890 were short-lived because although the tariff of 1894 did not legislate the agreements out of existence, it restored the duty on sugar and admitted tea and coffee free, thus removing the reciprocity weapons.

The Republican Party Platform of 1892. The Republican plank on the tariff was obviously that of a party already in power:

> We reaffirm the American doctrine of protection. We call attention to its growth abroad. We maintain that the prosperous condition of our country is largely due to the wise revenue legislation of the last Republican Congress. We believe that all articles which cannot be produced in the United States, except luxuries, should be admitted free of duty, and that on all imports coming into competition with the products of American labor there should be levied duties equal to the difference between wages abroad and at home.
>
> We assert that the prices of manufactured articles of general consumption have been reduced under the operations of the Tariff Act of 1890.
>
> We denounce the efforts of the Democratic majority of the House of Representatives to destroy our tariff laws by piece-meal as manifested by their attacks upon wool, lead, and lead ores, the chief product of a number of States, and we ask the people for their judgment thereon.
>
> We point to the success of the Republican policy of reciprocity, under which our export trade has vastly increased and new and enlarged markets have been opened for the products of our farms and workshops. We remind the people of the bitter opposition of the Democratic party to this practical business measure, and claim that, executed by a Republican administration, our present laws will eventually give us control of the trade of the world.

The Democratic Party Platform of 1892. The tariff plank was a bitter denunciation of the McKinley Act:

> We denounce Republican protection as a fraud—a robbery of the great majority of the American people for the benefit of the few. We declare it to be a fundamental principle of the Democratic party that the Federal Government has no Constitutional power to impose and collect tariff duties, except for the purposes of revenue only, and we demand that the collection of such taxes shall be limited to the necessities of the Government when honestly and economically administered.

We denounce the McKinley tariff law enacted by the Fifty-first Congress as the culminating atrocity of class legislation; we indorse the efforts made by the Democrats of the present Congress to modify its most oppressive features in the direction of free raw materials and cheaper manufactured goods that enter into general consumption, and we promise its repeal as one of the beneficent results that will follow the action of the people in intrusting power to the Democratic party. Since the McKinley tariff went into operation there have been ten reductions of the wages of the laboring men to one increase. We deny that there has been any increase of prosperity to the country since that tariff went into operation, and we point to the dullness and distress, to the wage reductions and strikes in the iron trade, as the best possible evidence that no such prosperity has resulted from the McKinley Act.

We call the attention of thoughtful Americans to the fact that, after thirty years of restrictive taxes against the importation of foreign wealth in exchange for our agricultural surplus, the homes and farms of the country have become burdened with a real estate–mortgage debt of over $2,500,000,000, exclusive of all other forms of indebtedness; that in one of the chief Agricultural States of the West there appears a real estate–mortgage debt averaging $165 per capita of the total population and that similar conditions and tendencies are shown to exist in the other agricultural-exporting states. We denounce a policy which fosters no industry so much as it does that of the sheriff.

The Wilson-Gorman Act of 1894. The severe defeat of the Republican party about a month after the McKinley Act became law and the subsequent return of President Cleveland to the White House, with a substantial Democratic majority in the House and a working majority in the Senate, might have laid the foundation for a revenue tariff. But the silver controversy and the related Panic of 1893 forced Cleveland to call an extra session for the repeal of the Sherman Silver Purchase Act. Although successful in this, the unity of his party was disrupted.

The sponsor of the act of 1894 was William L. Wilson who submitted a bill accompanied by a statement that it "contemplates a general revision, reduction, and simplification of our system of import duties" and that, although because of respect for vested interests, and so on, it is not an ideal bill, nevertheless it is based on the belief that "the American people, after the fullest and most thorough debate ever given by any people to their fiscal policy, have deliberately and rightly decided that the existing tariff is wrong in principle and grievously unjust in operation. They have decided as free men must always decide, that the power of taxation has no lawful or constitutional exercise except for providing revenue for the support of government." Of interest is the speech of Senator Quay, delivered in three parts—covering 56, 81, and 94 pages of the *Congressional Record* and involving about 400,000 words. William McKinley who presented a minority report found occasion to make certain charges concerning the framing of the bill—a situation to which we have become more or less reconciled in tariff-framing. McKinley insisted that the bill

was fashioned outside of the committee and reached it not by the reference of the House, which is the usual channel through which committees obtain jurisdiction of a subject. It was presented ready-made by the chairman of the committee, was framed, completed, and printed without the knowledge of the minority, and without consideration or discussion in the full committee.

. . . .

If any consultations were held the minority were excluded . . . . Every effort upon the part of the minority to obtain from the majority the facts and information upon which they constructed the bill proved unavailing; . . . .

In the Senate the measure was subjected to 634 amendments, but the House Ways and Means Committee urged that the House disagree with all the amendments. President Cleveland realized the shortcomings of the bill. He had tried in vain to live up to his principles, and it is possible to note the depth of his despair in a letter which he wrote to its sponsor, Mr. Wilson:

Every true Democrat and every sincere tariff reformer knows that this bill in its present form and as it will be submitted to the conference, falls short of the consummation for which we have long labored, for which we have suffered defeat without discouragement; which in its anticipation gave us a rallying cry in our day of triumph, and which in its promise of accomplishment is so interwoven with Democratic pledges and Democratic success, that our abandonment of the cause or the principles upon which it rests means party perfidy and dishonor . . . .

We have in our platforms and in every way possible declared in favor of the free importation of raw materials. . . . It must be admitted that no tariff measure can afford with Democratic principles and promises or bear a genuine Democratic badge that does not provide for free raw materials. In these circumstances it may well excite our wonder that Democrats are willing to depart from this the most Democratic of all tariff principles, and that the inconsistent absurdity of such a proposed departure should be emphasized by the suggestion that the wool of the farmer be put on the free list and the protection of tariff taxation be placed around the iron ore and coal of corporations and capitalists.

How can we face the people after indulging in such outrageous discriminations and violations of principle? . . . .[15]

The Senate, however, was able to dominate the Conference Committee, and Mr. Cleveland showed his displeasure by allowing the bill to become a law on August 27, 1894, without his signature. The level of the duties was approximately 40 per cent. In placing wool on the free list, Congress was merely following a free-trade principle that raw materials for manufacture should be admitted duty free, but, from the point of view of the protectionists, it marked a serious change. A later report of the Tariff

[15] *Congressional Record*, Vol. XXVI, Part 8, p. 7712. Quoted in Jennings, *op. cit.*, pp. 463–64.

Board (1912) states that "the highest average cost of production of such wool (merino) in the world is in the state of Ohio and contiguous territory."[16] Assuming that a somewhat similar condition existed at this time and recalling that Ohio was the home of McKinley, it was not difficult to realize the consternation the change aroused.

If the woolgrower received no protection, the manufacturer of woolens received virtually the same protection as he enjoyed under the McKinley Act. This came about through the abolition of the system of compound duties. Under this system, since raw wool was subject to a duty, the finished foreign product was subjected not only to the duty on that product but to a charge on the raw wool content in order that the foreign product would bear the same tax as the domestic. First used in 1861, it remained a policy until 1913 except for the years during which the Wilson Tariff was in force (1894–97). The tax was figured on the basis that a pound of cloth required four pounds of wool. If the duty on wool was 11 cents a pound, a charge of 44 cents a pound on cloth compensated the American manufacturer. This figure remained basic during the whole period with a few changes because of grade, and so on. Thus the act of 1890 had provided that on woolen cloth worth more than 40 cents per pound, a duty of 44 cents per pound plus 50 per cent ad valorem was to be paid. The Wilson Act removed the duty on raw wool, hence the 44 cents per pound, and retained the 50 per cent duty on most classes.

Rates on other textiles were not materially changed. The rate on tin plate was reduced by one-half, while that on chinaware was cut from 60 to 35 per cent and on earthenware from 50 to 30 per cent. The duty on sugar was restored to 40 per cent ad valorem on raw sugar, and, as a consequence, the bounty was removed, although its payment for a period of fourteen years had been planned in the act of 1890. Refined sugar was subject to ⅛ cent per pound with the proviso that an extra ⅒ cent per pound duty be assessed against any refined sugar coming from countries which paid a bounty—Germany, for example.

In Professor Taussig's opinion, the Wilson-Gorman Act "made no deep-reaching change in the character of our tariff legislation. The one exception was the removal of the duty on wool. Barring this, there was simply a moderation of the protective duties. A slice was taken off here, a shaving there; but the essentially protective character remained."[17]

The Republican Platform of 1896. The tariff plank sounded the popular fallacy that foreign goods bear the burden of duties:

> We renew and emphasize our allegiance to the policy of protection as the bulwark of American industrial independence and the foundation of American

[16] Quoted in Taussig, *Some Aspects of the Tariff Question,* p. 316.
[17] Taussig, *Tariff History of the United States,* p. 317.

development and prosperity. This true American policy taxes foreign products and encourages home industry; it puts the burden of revenue on foreign goods; it secures the American market for the American producer; it upholds the American standard of wages for the American workingman; it puts the factory by the side of the farm, and makes the American farmer less dependent on foreign demand and price; it diffuses general thrift, and founds the strength of all on the strength of each. In its reasonable application it is just, fair, and impartial; equally opposed to foreign control and domestic monopoly, to sectional discrimination and individual favoritism.

We denounce the present Democratic tariff as sectional, injurious to the public credit, and destructive to business enterprise. We demand such an equitable tariff on foreign imports which may have come into competition with American products as will not only furnish adequate revenue for the necessary expenses of the Government, but will protect American labor from degradation to the wage level of other lands. We are not pledged to any particular schedules. The question of rates as a practical question to be governed by the conditions of time and of production; the ruling and uncompromising principle is the protection and development of American labor and industry. The country demands a right settlement, and then it wants rest.

The Democratic Platform of 1896. The Democratic convention which nominated William Jennings Bryan promised to approach the tariff question with more than usual care:

We hold that Tariff duties should be levied for purposes of revenue, such duties to be so adjusted as to operate equally throughout the country, and not discriminate between class or section, and that taxation should be limited by the needs of the Government, honestly and economically administered. We denounce as disturbing to business the Republican threat to restore the McKinley law, which has twice been condemned by the people in national elections, and which, enacted under the false plea of protection to home industry, proved a prolific breeder of trusts and monopolies, enriched the few at the expense of the many, restricted trade, and deprived the producers of the great American staple of access to their natural markets.

Until the money question is settled we are opposed to any agitation for further changes in our tariff laws, except such as are necessary to meet the deficit in revenue caused by the adverse decision of the Supreme Court on the income tax. But for this decision by the Supreme Court, there would be no deficit in the revenue under the law passed by a Democratic Congress in strict pursuance of the uniform decisions of that court for nearly one hundred years, that court having in that decision sustained Constitutional objections to its enactment, which had previously been overruled by the ablest judges who have ever sat on that bench. We declare that it is the duty of Congress to use all the Constitutional power which remains after that decision, or which may come from its reversal by the court as it may hereafter be constituted, so that the burdens of taxation may be equally and impartially laid, to the end that wealth may bear its due proportion of the expense of the Government.

The Dingley Tariff of 1897. William McKinley was elected President in 1896 and immediately after his inauguration called a special session of Congress to deal with the problem of raising additional revenue. Nelson Dingley, Jr., of Maine was Chairman of the Ways and Means Committee and introduced a bill on the very first day of the session. Three days later the committee reported the bill, and it was passed in less than two weeks. This apparent speed can be explained in part by the fact that certain leaders had been working on the bill for three months previous to the session in anticipation of it. Then, too, as Professor Taussig has said, "only a comparatively small part of it had been considered in the House: no more than twenty-two of the one hundred and sixty-three pages were taken up for discussion."[18]

The bill then went to the Senate which suggested 872 amendments, four-fifths of which were accepted by the House, and the bill was signed by the President on July 24, 1897. The rates averaged about 57 per cent. The act restored specific rates of 11 to 12 cents on a pound of wool, according to grade, as well as the rates of 1890 on woolens. Cloth that was worth 40 cents or less per pound was taxed 33 cents per pound and 50 per cent ad valorem; that worth from 40 to 70 cents, 44 cents per pound and 50 per cent ad valorem; and cloth in excess of this price paid the same specific rate but a higher ad valorem tax of 55 per cent. Rates on silk and linens were raised considerably above any preceding tariff, while cotton cloth remained below that of 1890. The rates on chinaware were restored, those on tin plate increased slightly, while those on sugar were made specific—1 cent to 1.65 cents per pound in the case of raw sugar and 1.95 cents per pound in the case of refined.

In the Dingley Act, the chemical schedule was put first, and this was done, according to Stanwood, in order to cut down the time available for debate on the other schedules since that schedule contains from seventy-five to one hundred items of a controversial nature. In our discussion of the act of 1930, the reader will find a paragraph from the chemical schedule which will reveal the possibility that Stanwood pictures.

Reciprocity Provisions of the Act of 1897. The reciprocity provisions of the act of 1890 were restored with enlarged powers for the President. He was given the right to suspend the free admission of tea, coffee, tonka beans, and vanilla beans and to subject them to rates such as 10 cents per pound on tea and 3 cents per pound on coffee. After securing concessions he was empowered to suspend specified duties and replace them with lower rates in the cases of argol, brandies, champagne, wines, paintings, and statuary. His treaty-making power, however, was subject to ratification by the Senate, as provided by the Constitution, as well as approval by the House in that revenue-raising was involved. The treaties

[18] *Ibid.*, p. 326.

had to be made within two years after the passage of the act and were limited to a life of five years. The reductions which the President could make were likewise limited to 20 per cent, but the rate on any article could be so treated. It is significant that no treaties (involving Senate ratification) were made, but "commercial agreements" were reached with France, Germany, Italy, and Portugal.

The Republican Platform of 1900. "The Dingley Act, amended to provide sufficient revenue for the conduct of the war, has so well performed its work that it has been possible to reduce the war debt in the sum of forty million. . . . . The country is now justified in expecting, and it will be the policy of the Republican Party to bring about, a reduction of the war taxes."

The Democratic Platform of 1900. "Tariff laws should be amended by putting the products of trusts upon the free list, to prevent monopoly under the plea of protection. . . . We condemn the Dingley tariff law as a trust-breeding measure, skillfully devised to give the few favors which they do not deserve and to place upon the many burdens which they should not bear."

The Republican Platform of 1904. The tariff plank in 1904 offered nothing new. The charge that the Republican tariff meant prosperity and the Democratic tariff adversity was again recited:

> Protection which guards and develops our industries is a cardinal policy of the Republican party. The measure of protection should always at least equal the difference in the cost of production at home and abroad.
>
> We insist upon the maintenance of the principles of protection, and therefore rates of duty should be readjusted only when conditions have so changed that the public interest demands their alteration, but this work can not safely be committed to any other hands than those of the Republican party. To intrust it to the Democratic party is to invite disaster. Whether, as in 1892, the Democratic party declares the protective tariff unconstitutional, or whether it demands tariff reform or tariff revision, its real object is always the destruction of the protective system.
>
> However specious the name, the purpose is ever the same. A Democratic tariff has always been followed by business adversity; A Republican tariff by business prosperity.
>
> To a Republican Congress and a Republican President this great question can be safely intrusted. When the only free trade country among the great nations agitates a return to protection, the chief protective country should not falter in maintaining it.
>
> We have extended widely our foreign markets, and we believe in the adoption of all practicable methods for their further extension, including commercial reciprocity wherever reciprocal arrangements can be effected consistent with the principles of protection and without injury to American agriculture, American labor, or any American industry.

The Democratic Platform of 1904. Although written some weeks later, the Democratic tariff plank did not take Republican claims to task:

> The Democratic party has been and will continue to be the consistent opponent of that class of tariff legislation by which certain interests have been permitted, through Congressional favor to draw a heavy tribute from the American people. This monstrous prevention of those equal opportunities which our political institutions were established to secure has caused what may once have been infant industries to become the greatest combinations of capital that the world has ever known. These especial favorites of the Government have, through trust methods, been converted into monopolies, thus bringing to an end domestic competition, which was the only alleged check upon the extravagant profits made possible by the protective system. These industrial combinations, by the financial assistance they can give, now control the policy of the Republican party.
>
> We denounce protection as a robbery of the many to enrich the few, and we favor a tariff limited to the needs of the Government, economically administered, and so levied as not to discriminate against any industry, class, or section, to the end that the burdens of taxation shall be distributed as equally as possible.
>
> We favor a revision and a gradual reduction of the tariff by the friends of the masses and for the common weal, and not by the friends of its abuses, its extortions, and its discriminations, keeping in view the ultimate ends of "equality of burdens and equality of opportunities," and the constitutional purpose of raising a revenue by taxation, to wit, the support of the Federal Government in all its integrity and virility, but in simplicity.

The Republican Platform of 1908. The Republican plank in 1908 promised a special session of Congress to deal with the tariff:

> The Republican party declares unequivocally for a revision of the tariff by a special session of the Congress immediately following the inauguration of the next President, and commends the steps already taken to this end in the work assigned to the appropriate committees of Congress, which are now investigating the operation and effect of these schedules. In all tariff legislation the true principle of protection is best maintained by the imposition of such duties as will equal the difference between cost of production at home and abroad, together with a reasonable profit to American industries. We favor the establishment of a maximum and minimum rate to be administered by the President under limitations fixed by the law, the maximum to be available to meet the discrimination by foreign countries against American goods entering our markets, and the minimum representing the normal measure of protection at home, the aim and purpose of Republican policy being not only to preserve without excessive duties the security against foreign competition to which American manufacturers, farmers, and producers are entitled, but also to maintain the high standard of living of the wageworkers of this country, who are the most direct beneficiaries of the protective system.

The Republican platform also included a special plank regarding trade with the Philippine Islands: "Between the United States and the Philip-

pines we believe in a free interchange of products with such limitations as to sugar and tobacco as will afford adequate protection to domestic interests."

The Democratic Platform of 1908. In the Democratic plank the promise of tariff revision by the Republicans was hailed sarcastically:

> We welcome the belated promise of tariff reform, now offered by the Republican party, as a tardy recognition of the righteousness of the Democratic position on this question; but the people can not safely intrust the execution of this important work to a party which is so deeply obligated to the highly protected interests as is the Republican party. We call attention to the significant fact that the promised relief is postponed until after the coming election—and election to succeed in which the Republican party must have that same support from the beneficiaries of the high protective tariff as it has always heretofore received from them; and to further fact that during years of uninterrupted power, no action whatever has been taken by the Republican Congress as to correct the admittedly existing tariff iniquities.
>
> We favor immediate revision of the tariff by the reduction of import duties. Articles entering into competition with trust-controlled products should be placed upon the free list; material reductions should be made in the tariff upon the necessaries of life, especially upon articles competing with such American manufactures as are sold abroad more cheaply than at home; and gradual reductions should be made in such other schedules as may be necessary to restore tariff to a revenue basis.
>
> Existing duties have given the manufacturers of paper a shelter behind which they have organized combinations to raise the price of pulp and of paper, thus imposing a tax upon the spread of knowledge. We demand the immediate repeal of the tariff on wood pulp, print paper, lumber, timber and logs, and that those articles be placed upon the free list.

The Payne-Aldrich Tariff of 1909. The Dingley Tariff was the longest-lived of our tariffs, having remained in force for twelve years. The reasons for this, according to Professor Taussig, were the prosperity of the period and the fact that "other great problems pressed for solution." The problems included the growth of trusts, monopolies, and big business combinations of various sorts, wonderfully and effectively dramatized in the cartoons of the period by President Theodore Roosevelt's "Big Stick" and his "trust-busting" proclivities. A widespread belief that the tariff and the trust were related led to a demand for tariff revision downward. Sereno E. Payne of New York was chairman of the Ways and Means Committee, and the bill he introduced, after being subjected to a debate in which extraordinary claims and counterclaims were made, was sent to the Senate where 847 amendments were added to the bill, raising the general level of its rates in the process. After leaving the Conference Committee where President Taft's attempt to bring about reductions failed, it

received his signature. The act seems to have come in for immediate criticism because of its high rates—so much so that we find the President defending it in a speech given on September 17, 1909, at Winona, Minnesota: "On the whole. . . . I am bound to say that I think the Payne tariff bill is the best tariff bill that the Republican party ever passed; that in it the party has conceded the necessity for following the changed conditions and reducing tariff rates accordingly. This is a substantial achievement in the direction of lower tariffs and downward revision, and it ought to be accepted as such." The Ways and Means Committee, he claimed, "spent a full year in an investigation, assembling evidence in reference to the rates under the tariff, and devoted an immense amount of work to the study of the question where the tariff rates could be reduced and where they ought to be raised with a view to maintaining a reasonably protective rate, under the principles of the platform, for every industry that deserved protection." He pointed out that under the Dingley Act there were 2,024 dutiable items and that, of this number, the Payne Act left 1,150 unchanged, decreased 654, and increased 220.

The act of 1909 provided that the enacted rates were to be minimum rates to which rates of 25 per cent ad valorem could be added on goods coming from countries which "unduly" discriminated against the United States, whether "in the way of tariff rates or provisions, trade or other regulations, charges, exactions, or in any other manner," or by export bounty or export duty or by prohibition upon exportation. In other words, the act had a maximum and minimum rate, the former being 25 per cent higher than the latter. The maximum rate was to apply to all countries unless the President had proclaimed the minimum rate by March 31, 1910. By April 1, 1910, however, the minimum rate was applicable to all countries.

The Tariff Board. The act of 1909 provided that in applying the maximum and minimum provisions, the President could "employ such persons as may be required" to give him the necessary information. President Taft set up a board for this purpose—a sort of tariff commission—with Professor H. C. Emery as chairman, but the House, having come under Democratic control, gave it no financial support after June, 1912, and it went out of existence as a result. The act also established the Court of Customs Appeal which was given exclusive jurisdiction over strictly legal questions arising out of the enforcement of custom acts.

The Payne Act and Reciprocity. The reciprocity provisions of the Act of 1897 were abandoned, and the President was given authority to terminate the agreements which had been made. Thus, the Republicans laid to rest the principle of reciprocity, and we do not meet it again until it was taken up by the Democratic party in 1933 as a basic part of the reciprocal trade agreements program.

Lack of Harmony after 1910. After 1910, a Republican President and Senate found themselves in conflict with a Democratic House of Representatives. In 1911 a "Farmer's Free-List Bill" was passed by both House and Senate, only to be vetoed by the President. It sought to reduce certain rates by placing on the free list additional agricultural implements along with flour, meats, boots and shoes, fence wire, leather, and so on. Another bill, called the "Woolen Bill," which provided for reductions on wool and woolens was likewise vetoed. Still another, the Cotton Schedule Bill, providing for various reductions failed to become a law although passed by both Houses. Commenting on this general situation, Professor Taussig has remarked: "The Democrats in the House passed bills which they knew the Senate would not entertain; the Senate made amendments which it was certain the House would reject."[19] It might be added that, when the House and Senate did agree, the President was sure to disagree.

The Republican Platform of 1912. The Republican convention of 1912, which renominated President Taft, adopted the following plank on the tariff:

> We reaffirm our belief in a protective tariff. The Republican tariff policy has been of the greatest benefit to the country, developing our resources, diversifying our industries, and protecting our workingmen against competition with cheaper labor abroad, thus establishing for our wage-earners the American standard of living. The protective tariff is so woven into the fabric of our industrial and agricultural life that to substitute for it a tariff for revenue only would destroy many industries and throw millions of our people out of employment. The products of the farm and of the mine should receive the same measure of protection as other products of American labor.
>
> We hold that the import duties should be high enough, while yielding a sufficient revenue, to protect adequately American industries and wages. Some of the existing import duties are too high, and should be reduced. Readjustment should be made from time to time to conform to changing conditions and to reduce excessive rates, but without injury to any American industry. To accomplish this, correct information is indispensable. This information can best be obtained by an expert commission, as the large volume of useful facts contained in the recent reports of the Tariff Board has demonstrated.

The platform also contained a plank regarding the establishment of a tariff board:

> The pronounced feature of modern industrial life is its enormous diversification. To apply tariff rates justly to these changing conditions requires closer study and more scientific methods than ever before. The Republican Party has shown by its creation of a Tariff Board its recognition of this situation and its determination to be equal to it. We condemn the Democratic Party for its failure either to provide funds for the continuance of this board or to make

[19] *Ibid.*, p. 413.

some other provision for securing the information requisite for intelligent tariff legislation. We protest against the Democratic method of legislating on these vitally important subjects without careful investigation.

We condemn the Democratic tariff bills passed by the House of Representatives of the Sixty-second Congress as sectional, as injurious to the public credit, and as destructive of business enterprise.

The Democratic Platform of 1912. The Democratic platform charged the Republicans with having failed to keep faith and was critical of the bills vetoed by Mr. Taft:

We declare it to be a fundamental principle of the Democratic Party that the Federal Government, under the Constitution, has no right or power to impose or collect tariff duties except for the purpose of revenue, and we demand that the collection of such taxes shall be limited to the necessities of government honestly and economically administered.

The high Republican tariff is the principal cause of the unequal distribution of wealth. It is a system of taxation which makes the rich richer and the poor poorer. Under its operations the American farmer and laboring man are the chief sufferers. It raises the cost of the necessaries of life to them, but does not protect their product or wages. The farmer sells largely in free markets and buys almost entirely in the protected markets. In the most highly protected industries, such as cotton and wool, steel and iron, the wages of the laborers are the lowest paid in any of our industries. We denounce the Republican pretense on that subject and assert that American wages are established by competitive conditions and not by the tariff.

We favor the immediate downward revision of the existing and in many cases prohibitive tariff duties, insisting that material reductions be speedily made upon the necessaries of life. Articles entering into competition with trust-controlled products and articles of American manufacture which are sold abroad more cheaply than at home should be put upon the free list.

We recognize that our system of tariff taxation is intimately connected with the business of the country, and we favor the ultimate attainment of the principles we advocate by legislation that will not injure or destroy legitimate industry.

We denounce the action of President Taft in vetoing the bills to reduce the tariff in the cotton, woolen, metal, and chemical schedules and the farmers' free list bill, all of which were designed to give immediate relief to the masses from the exactions of the trusts.

The Republican Party, while promising tariff revision, has shown by its tariff legislation that such revision is not to be in the people's interest; and having been faithless to its pledges of 1908, it should no longer enjoy the confidence of the Nation. We appeal to the American people to support us in our demand for a tariff for revenue only.

Progressive Party Platform of 1912. The presidential campaign of 1912 was enlivened by the followers of Theodore Roosevelt who formed the Progressive Party. This split in the Republican ranks brought about

the election of Woodrow Wilson, the second Democrat to hold the office since the Civil War. The popular vote gave Mr. Wilson 6,286,214; Mr. Roosevelt 4,126,020; and Mr. Taft 3,483,922. If the popular vote can ever be taken as an indication of the people's feelings about the tariff, then the combined votes for the Progressive and Republican Parties exceeded that received by Mr. Wilson by over 1,300,000. But under our electoral system, Mr. Wilson received 435 votes; Mr. Roosevelt 88; and Mr. Taft only 8. We include the Progressive party platform because of its vigorous statement on the subject of the tariff.

We believe in a protective tariff which shall equalize conditions of competition between the United States and foreign countries, both for the farmer and the manufacturer, and which shall maintain for labor an adequate standard of living.

Primarily the benefit of any tariff should be disclosed in the pay envelope of the laborer. We declare that no industry deserves protection which is unfair to labor or which is operating in violation of Federal Law. We believe that the presumption is always in favor of the consuming public.

We demand tariff revision because the present tariff is unjust to the people of the United States. Fair dealing towards the people requires an immediate downward revision of those schedules wherein duties are shown to be unjust or excessive.

We pledge ourselves to the establishment of a non-partisan scientific tariff commission, reporting both to the President and to either branch of Congress, which shall report, first, as to the costs of production, efficiency of labor, capitalization, industrial organization and efficiency and the general competitive position in this country and abroad of industries seeking protection from Congress; second, as to the revenue producing power of the tariff and its relation to the resources of Government; and, third, as to the effect of the tariff on prices, operations of middlemen, and on the purchasing power of the consumer.

We believe that this commission should have plenary power to elicit information, and for this purpose to prescribe a uniform system of accounting for the great protected industries. The work of the commission should not prevent the immediate adoption of acts reducing these schedules generally recognized as excessive.

We condemn the Payne-Aldrich bill as unjust to the people. The Republican organization is in the hands of those who have broken, and cannot again be trusted to keep, the promise of necessary downward revision.

The Democratic party is committed to the destruction of the protective system through a tariff for revenue only—a policy which would inevitably produce widespread industrial and commercial disaster.

We demand the immediate repeal of the Canadian Reciprocity Act.[20]

[20] This referred to a treaty providing for free trade or reduced rates on certain food products and reductions on manufactured goods which passed both Houses of Congress after a long struggle, only to be rejected by Canada.

The Underwood-Simmons Act of 1913. The new President, Woodrow Wilson, one-time President of Princeton University and Governor of New Jersey, called an extra session of Congress which considered the question of the tariff. The chairman of the Ways and Means Committee was Oscar Underwood of Alabama. He presented a bill which had been prepared in advance during the hold-over session and which had incorporated certain features of the series of vetoed bills of that session. In his report, Underwood offered a sort of historical summary suggesting that the "tariff situation resulting from fifty years of high protective rates, had gradually become intolerable," that the Payne-Aldrich Tariff of 1909 had failed to improve the situation, and that since 1897 there had been a "tremendous increase in the cost of living" and in the activity of trusts. He blamed the protectionist system for "a too rapid rate of depletion of natural resources," for the "existence of obsolete plants and methods in many lines of industry," being strongly of the belief "that there is rarely a highly protected industry in which a considerable percentage of the plants and machinery are not hopelessly behind the times." To remedy these conditions, the bill he presented aimed "to eliminate protection of profits and to cut off the duties which enabled industrial managers to exact a bonus for which no equivalent is rendered" and "to introduce in every line of industry a competitive tariff basis providing for a substantial amount of importation" so as to prevent monopoly.

The bill passed the House and was subjected to a debate in the Senate that lasted all summer, finally passing at the end of September, after having been amended through additions to the free list and a lowering of some rates. It became a law on October 3, 1913, and has been called by Professor Faulkner "the most intelligent tariff act since the Civil War."[21]

The Underwood Tariff eliminated specific duties, added over 100 items to the free list, reduced rates on 958 classifications, increased those on 86 items, mostly in the chemical schedule, and left 307 unchanged.[22] Sugar and wool were to be admitted free; wool immediately and sugar by May 1, 1916. Until then the rate was to be 1½ cents per pound. This meant that the system of compensating duties on woolen goods went out of existence. All agricultural implements were put on the free list as well as leather, boots and shoes, lumber, coal, wheat, flour, cattle, meats, eggs, milk, and cream. The maximum-minimum provisions were abolished, although provisions for additional duties to offset foreign bounties were retained.

Writing in 1913, Professor Taussig stated: "To speak of the act as introducing complete free trade would be absurd; but it might well be spoken

[21] Faulkner, Harold U., *American Economic History* (New York: Harper & Bros., 1935), p. 692.

[22] Ogg, Frederic A., *National Progress* (New York: Harper & Bros., 1918), p. 219, cited in Jennings, *op. cit.*, p. 622.

of as beginning a policy of much moderated protection, and of opening the possibility of still further changes in the same direction at a later date."[23] At this time no one suspected that on the following June 28 a Serbian student would assassinate Archduke Francis of Austria and his wife, thereby precipitating a world war which was to make the great reversal of American tariff policy meaningless and which was to change the whole course of commercial policies for the next generation. A bullet seemed to do away in a second with the teachings of Smith and the criticisms of mercantilism!

A NOTE ON TARIFF PLANKS PRIOR TO 1860

The first national political platform in our history was drafted in connection with Henry Clay's candidacy in 1832. It contained a protective tariff plank: "An adequate protection to American industry is indispensable to the prosperity of the country. . . ." The next reference to a tariff was found in the Whig platform of 1844 which pledged "a tariff for revenue to defray the necessary expenses of the Government, and discriminating with special reference to the protection of the domestic labor of the country. . . ."

The Democratic platform of 1848 praised the "noble impulse given to the cause of free-trade by the repeal of the tariff of '42, and the creation of the more equal, honest and productive tariff of 1846." The next reference appeared in the Whig platform of 1852. Government revenue was to be derived "mainly from a duty on imports, and not from direct taxes; and in laying such duties sound policy requires a just discrimination, and, when practicable, by specific duties whereby suitable encouragement may be offered to American industry equal to all classes and to all portions of the country."

The Whig platform of 1856 and the Republican platform of that year made no mention of the tariff. But the Democratic platform declared: "The time has come for the people of the United States to declare themselves in favor of free seas and progressive free trade throughout the world, and, by solemn manifestations, to place their moral influence at the side of their successful example."

The Whig and Republican platforms of 1856 and the Democratic platforms of the two rival factions (the Douglas and Breckenridge followers' platforms adopted in Charleston and Cincinnati respectively) likewise were silent on the subject.

SUMMARY

Act of 1861.—Morrill, a protectionist, introduced a moderate bill restoring 1846 levels. It was passed before any expectation of the Civil

[23] Taussig, *Tariff History of the United States*, p. 448.

War. But it won Pennsylvania to protectionist and Republican ranks and elected Lincoln as a result.

During the Civil War there was some tariff modification almost every month.

Act of 1864.—Called crude and ill-considered because it was passed in five days it remained the basis of our tariff until 1883. The average rate was 47.06 per cent.

Attached to the revenue act of 1870 was a tariff in answer to a demand for reform, but reduction was purely on revenue items. Some increase was made in duties. The only noteworthy reduction was on pig iron, and 130 articles were placed on free list.

Act of 1872.—The Act provided a horizontal cut of 10 per cent. But the cut was repealed in 1875.

The most important and longest continued experiment in reciprocity started in 1875 with the treaty with Hawaiian Islands providing mutual exchange, duty free, of chief items of both countries. After seven years, it was renewed. It lasted twenty-two years until Hawaii became part of the United States.

Act of 1883.—This Act was the first general revision since the Civil War apart from abortive horizontal reduction 1872–75. It was a half-hearted attempt on the part of protectionists to make some concessions to public demand for moderation. No basic changes and no new lines of reasoning were introduced in spite of the recommendation of the Tariff Commission that was made up of a majority of protectionists that a 25 per cent reduction be made. The commission heard 604 witnesses; 2,625 pages of tariff testimony were taken; 78 days of sessions were consumed and meetings held in 29 places.

President Cleveland's Message in 1887.—The President characterized the tariff as a "vicious, inequitable, and illogical source of unnecessary taxation." He definitely committed the Democratic Party to an opposition to protectionism. McKinley in his speech on the Mills Bill in 1888 claimed that from 1789 to 1888 we had 47 years of Democratic tariff and 52 years of Republican tariff—and all the hard times were during the 47 years of the Democratic tariff.

McKinley Act of 1890.—The Act was passed closely following the Silver Purchase Act. Intended to reduce the revenue and equalize duties on imports, it was highly protectionist. It was the first tariff with a complete schedule of protective duties on agriculture. It included a meaningless enlargement of free list. Sugar was taken off the protected list; but a

bounty of 2 cents a pound was provided. It was to run fourteen years. Constitutionality was agreed to by the Court. Protectionism was advocated as a permanent principle and the temporary character was no longer granted. Commercial reciprocity was recognized. Agreements were made with Brazil, the Dominican Republic; with Spain in behalf of Cuba and Puerto Rico; Guatemala, Salvador, Germany, with Great Britain for certain West Indian colonies; and with Nicaragua, Honduras, Austria-Hungary. The Act included the tin plate experiment. There was no tin plate industry in the United States in 1890. Rates were granted which were to be removed if the domestic production of tin plate was not equal to one-third of the foreign importation by 1897. By 1894 the required quota had been reached. Even before 1900, in spite of duty reductions, foreign tin plate ceased coming.

Wilson-Gorman Act of 1894.—The Democrats swept the country within one month after the McKinley Act was passed. Republicans retained Senate control. The Wilson Act was presumably a step toward free trade. Cleveland allowed it to become a law without his signature in order to show his disapproval. No uniform or consistent principle was followed. The bounty was taken from sugar and a tariff restored. Wool was put on the free list. This was revolutionary. Tin plate rate was fixed at half the 1890 rate. Earthenware was reduced from 60 to 35 per cent ad valorem. Reciprocity was practically abandoned. Senator Quay's speech (Pennsylvania) was 400,000 words in length and covered 231 pages of the Congressional Record. Mr. Wilson was a college professor and later a college president.

Act of 1897.—The Dingley Act was thoroughly protectionist and had an uneventful legislative history. Pushed through the House by the incomparable Reed, it faced 872 amendments in the Senate. The chemical schedule was put first. This included 75 to 100 items of a controversial nature and cut short the time available for debate on other schedules. In 1894 nothing seemed more improbable than a return to high rates, but the silver question and Republican victory made tariff revision natural. Wool rates of 1890 were restored as well as those on chinaware. Reciprocity was resumed; but it was to be in treaty form calling for House approval as well. Effects of this tariff are hard to follow because of war with Spain.

Payne-Aldrich Act of 1909.—The Dingley Act lasted eleven years—longest-lived of our tariffs prior to 1934. The "true principle of protection" enunciated by Republicans meant such duties "as will equal the difference between the cost of production at home and abroad, together with a reasonable profit to American industries." It seemed good; but if carried to conclusion meant the virtual stoppage of importation. Anything

can be produced in the United States if the cost of production is assured and a reasonable profit above it. A special session was called solely for the tariff. The House made a few reductions. The Senate made 847 amendments to the House bill. Taft failed to get reductions in Conference Committee.

Reciprocity was abandoned and retaliation endorsed. The system of maximum and minimum rates was adopted. Where discrimination appeared, the President could raise rate 25 per cent. He was to be advised by a newly created Tariff Board. But no money was voted for this board after June, 1912. Dingley had had 2,024 dutiable items. Payne left 1,150 unchanged, reduced 654, and increased 220.

Underwood Tariff of 1913.—A new principle was announced by the Democrats: a competitive tariff. But this was really the same as the Republican true principle except "reasonable profit" was left out. But cost of production presupposes a reasonable profit.

A great deal of talk was heard about the rights of "legitimate" industry, but no explanation as to what was not legitimate.

The average was reduced from 40.1 to 29.6 per cent. Sugar and wool were added to the free list. Some distinguishing characteristics were: elimination of mixed duties; emphasis on ad valorem rather than specific duties; extension of free list, particularly on agricultural products, also agricultural machinery; sugar duty to be removed gradually by May, 1916. War prevented this. An antidumping section was included as in 1909.

It is impossible to tell what this act might have accomplished. Really inoperative because of World War, it remained in force nominally for nine years. These nine years marked a political truce as well. After election of 1920, and the complete overthrow of the Democrats, the tariff issue reappeared.

QUESTIONS FOR DISCUSSION

1. In what basic respect does United States tariff legislation differ from that of other countries? How do you account for this difference?
2. Trace the general trend of tariff policy in the United States between 1861 and 1890.
3. Discuss the important provisions of the McKinley Tariff of 1890. What difference in "motive" was there between this act and previous protective tariff acts?
4. Explain the system of "compound duties." When was it first used? What was its purpose? Why was the compound duty on woolen cloth removed by the Wilson-Gorman Act of 1894?
5. What were the significant provisions of the Dingley Tariff of 1897? Of the Payne-Aldrich Tariff of 1909?

6. What important change in trend of tariff policy was evidenced by the passage of the Underwood-Simmons Act of 1913?
7. "Although the Republican party has become synonymous with the protective tariff while the Democratic Party is equally famous for its advocacy of a revenue tariff, the line between them is by no means always distinct." Criticize this statement in light of the Democratic and Republican party platforms between 1861 and 1914 and in light of the tariffs for which each party was responsible during this period.
8. Prepare a chart listing all the tariff acts adopted between 1789 and 1914. For each tariff, show the following information: (*a*) the political party sponsoring the act; (*b*) predominance of specific or ad valorem rates; (*c*) general level of rates; (*d*) outstanding provisions.

CHAPTER XIII

THE TARIFF POLICY OF THE UNITED STATES: 1914–30

The Period 1914–16. The outbreak of the European phase of World War I in 1914, our participation in it from 1916 to 1918, and the sharp postwar collapse prevented the Democratic Underwood Tariff from working effectively. The enormity of the war costs would have dwarfed any amount that even a high tariff might have brought into the treasury, but the Underwood Tariff supplied less than 5 per cent of the taxes collected during the year 1918. The Revenue Act of 1914 increased duties on liquor, but the total customs fell off by $83,000,000, and the fiscal year ended with a deficit in excess of $30,000,000. At the end of 1915, Congress decided to retain the tariff on sugar which under the Underwood Act was to be removed. A Tariff Commission consisting of six members was established in 1916. Section 702 of the Revenue Act of that year outlined its duties:

> That it shall be the duty of said Commission to investigate the administration and fiscal and industrial effects of the customs laws of this country now in force or which may be hereafter enacted, the relations between the rates of duty on raw materials and finished or partly finished products, the effects of ad valorem and specific duties and of compound specific and ad valorem duties, all questions relative to the arrangement of schedules and classification of articles in the several schedules of the customs law, and, in general to investigate the operation of customs laws, including their relation to the Federal revenues, their effect upon the industries and labor of the country, and to submit reports of its investigations as hereafter provided.

The first chairman was the eminent economist, Professor Taussig of Harvard University, who accepted the position for the purpose of organizing the commission.

The Republican Platform of 1916. The tone of the Republican platform of 1916 was again that of a party which was out of power and which therefore had to use the strategy of severe criticism:

> The Republican Party stands now, as always, in the fullest sense for the policy of tariff protection to American industries and American labor and does not regard an antidumping provision as an adequate substitute.
>
> Such protection should be reasonable in amount but sufficient to protect

adequately American industries and American labor and so adjusted as to prevent undue exactions by monopolies or trusts. It should, moreover, give special attention to securing the industrial independence of the United States as in the case of dyestuffs.

Through wise tariff and industrial legislation our industries can be so organized that they will become not only a commercial bulwark but a powerful aid to national defense.

The Underwood tariff act is a complete failure in every respect. Under its administration imports have enormously increased in spite of the fact that intercourse with foreign countries has been largely cut off by reason of the war, while the revenues of which we stand in such dire need have been greatly reduced.

Under normal conditions which prevailed prior to the war it was clearly demonstrated that this act deprived the American producer and the American wage earner of that protection which enabled them to meet their foreign competitors, and but for the adventitious conditions created by the war, would long since have paralyzed all forms of American industry and deprived American labor of its just reward.

It has not in the least degree reduced the cost of living, which has constantly advanced from the date of its enactment. The welfare of our people demands its repeal and the substitution of a measure which in peace as well as in war will produce ample revenue and give reasonable protection to all forms of American production in mine, forest, field and factory.

We favor the creation of a tariff commission with complete power to gather and compile information for the use of Congress in all matters relating to the tariff.

The Democratic Platform of 1916. The Democrats offered a very sober statement regarding the tariff in the campaign of 1916:

We reaffirm our belief in the doctrine of a tariff for the purpose of providing sufficient revenue for the operation of the Government economically administered and unreservedly indorse the Underwood tariff law as truly exemplifying that doctrine. We recognize that tariff rates are necessarily subject to change to meet changing conditions in the world's production and trade. The events of the last two years have brought about many momentous changes. In some respects their effects are yet conjectural and wait to be disclosed, particularly in regard to our foreign trade.

Two years of a war which has directly involved most of the chief industrial nations of the world and which has indirectly affected the life and industry of all nations, are bringing about economic changes more varied and far-reaching than the world has ever before experienced. In order to ascertain just what those changes may be, the Democratic Congress is providing for a nonpartisan tariff commission to make impartial and thorough study of every economic fact that may throw light either upon our past or upon our future fiscal policy with regard to the imposition of taxes on imports or with regard to the changed and changing conditions under which our trade is carried on. We cordially

indorse this timely proposal and declare ourselves in sympathy with the principle and purpose of shaping legislation within that field in accordance with clearly established facts rather than in accordance with the demands of selfish interests or upon information provided largely, if not exclusively, by them.

The Republican Platform of 1920. The Republican plank was remarkable for its brevity in 1920:

The uncertain and unsettled condition of international balances, the abnormal economic and trade situation of the world, and the impossibility of forecasting accurately even the near future, preclude the formulation of a definite program to meet conditions a year hence. But the Republican Party reaffirms its belief in the protective principle and pledges itself to a revision of the tariff as soon as conditions shall make it necessary for the preservation of the home market for American labor, agriculture, and industry.

The Democratic Platform of 1920. Similarly, the Democrats, seemingly having taken an example, summarized their credo in this brief fashion:

"We reaffirm the traditional policy of the Democratic Party in favor of a tariff for revenue only and we confirm the policy of basing the tariff revisions upon the intelligent research of a non-partisan commission, rather than upon the demands of selfish interests, temporarily held in abeyance."

Emergency Tariff Act of May 27, 1921. The election of 1920 resulted in a victory for the Republican party. In his last day in office, President Wilson had vetoed a tariff bill which provided a protective system for agriculture. The plight of the farmer was the result of many factors growing out of the abnormal wartime demand, high prices, and then the sudden decline. Corn fell from $1.35 per bushel in 1919 to $0.68 in 1920, oats from $0.72 to $0.47, cotton from $0.36 to $0.14, wheat from $2.15 to $1.44, while other staples fell likewise. Professor Taussig sums up the situation in these words:

The farmers were as helplessly ignorant concerning the cause of this decline as they had been concerning the previous rise. They clamored vociferously for a remedy. Their political representatives, hardly less at sea than the rank and file and eager to ferret out some sort of response to their constituents, turned to the tariff. All the popular debates of the last generation had inculcated the belief that the mere imposing of a duty served at once to benefit the domestic producer. In a time of distress this notion of the wonder-working effect of an import duty naturally led the leaders to propose, and the rank and file to welcome, immediate and drastic tariff charges.[1]

The Emergency Tariff Act of 1921 was passed quickly during a special

[1] Taussig, F. W., "The Tariff Act of 1922," *Quarterly Journal of Economics*, Vol. XXXVII (1922–23), p. 4.

session of Congress under the leadership of the bloc of congressmen from the agricultural states. Intended to last but six months, it remained in effect until the Fordney-McCumber Tariff became a law in 1922. Among the rates granted to agricultural products, the following may be mentioned:

Wheat	35¢ per bu.	Lemons	2¢ per lb.
Corn	.15¢ " "	Butter and substitutes	6¢ " "
Potatoes	.25¢ " "	Cherries	3¢ " "
Onions	.40¢ " "	Olives in solution	3¢ " "
Apples	.30¢ " "	Sugar	1¢ " "
Flaxseed	.30¢ " "	Oils	.26¢ to 50¢ per gal.
Beans	2¢ per lb.	Milk	2¢ per gal.
Peanuts	3¢ " "	Cream	5¢ " "
Rice	2¢ " "	Meat, fresh or frozen	2¢ per lb.

Cattle for other than breeding purposes were taxed 30 per cent ad valorem, sheep $1.00 to $2.00 each depending on age. The act also provided higher rates on textile materials and textiles and on dyes and chemicals. It sought, too, to prevent the postwar dumping of European goods on the American market.

The Fordney-McCumber Tariff of September 19, 1922. In July, 1921, the House of Representatives passed a new tariff bill, but it spent a long legislative life in the Senate, which made 2,436 changes; and it did not become a law until September 19, 1922. That the caliber of the debate was on a "high plane" is indicated by the plea of Senator Morris Shepard of Texas who opposed an increase of 100 per cent in the duty on safety pins which he called "the symbol and the guard of infancy, necessary to rich and poor, to humble and to proud, whether in palace or hovel house, the new born glory of a babe."[2] Known as the "Fordney-McCumber Tariff," it marked the return to the protective system which the Underwood Tariff had interrupted. Agricultural products continued to enjoy high rates—those on flaxseed, lemons, sugar, wheat, wool, butter, and milk being above the Republican tariff of 1909. Higher rates were given to the chemical and metallurgical industries and other industries which feared postwar competition. A significant addition to the tariff was the flexible provision which permitted the President of the United States to revise rates upward or downward by as much as 50 per cent whenever it was found that the existing duty failed to equalize the difference in American and foreign costs of the principal competing countries. The jurisdiction of the Tariff Commission was increased at the same time in order to permit it to advise the President as to such changes.

That no really serious use was made of this authority by the Harding, Coolidge, and Hoover administrations may be seen from the fact that

[2] Jennings, Walter W., *A History of Economic Progress in the United States* (New York: Thomas Y. Crowell Co., 1926), p. 628.

only 37 changes were made during the years 1922–1930 and that, of these, 32 were increases and 5 were decreases. The lowered rates involved paint brush handles, bobwhite quails, mill feeds, phenol, and cresylic acid. Fifteen additional requests were also considered, but they were not granted. Even in the instance of sugar, the President ignored the recommendation that the rate be reduced. From 1930 to 1939 there were 101 requests for changes; of these, 25 increases were allowed, 31 decreases were ordered, while 45 were refused.[3]

The Republican Platform of 1924. The Republicans returned to the lengthier wording in the campaign of 1924:

> We reaffirm our belief in the protective tariff to extend needed protection to our productive industries. We believe in protection as a national policy with equal regard to all sections and to agriculture and industry. It is only by adherence to this policy that the interests of the consumers can be safeguarded and American agriculture, American labor, and American manufacturers be assured a return sufficient to perpetuate American standards of life.
>
> A protective tariff is designed to support the high American economic level of life for the average family and to prevent a lowering to the levels of economic life prevailing in other lands. It is the history of the Nation that the protective system has ever justified itself by promoting industrial activity and employment, enormously increasing our purchasing power, restoring confidence, and bringing increased prosperity to all.
>
> The tariff protection to our industry works for increased consumption of domestic agricultural products by an employed population instead of one unable to purchase the necessities of life. Without the strict maintenance of the tariff principle our farmers will need always to compete with cheap lands and cheap labor abroad, and with lower standards of living.
>
> The enormous value of the protective principle has once more been demonstrated by the effects of the emergency tariff act of 1921 and the tariff act of 1922.
>
> We believe that the power of the President to decrease or increase any rate of duty in the tariff act furnishes a safeguard against excessive duties and against too low customs charges, and affords ample opportunity for tariff duties to be adjusted after a hearing that they may cover the actual differences in the cost of production in the United States and the principal competing countries of the world.

The Democratic Platform of 1924. The Democratic platform of 1924 contained a bitter denouncement of the Republican tariff of 1922:

> The Fordney-McCumber tariff act is the most unjust, unscientific, and dishonest tariff tax measure ever enacted in our history. It is class legislation, which defrauds all the people for the benefit of a few; it heavily increases the cost of living, penalizes agriculture, corrupts the Government, fosters pater-

[3] Dietrich, Ethel B., *World Trade* (New York: Henry Holt & Co., 1939), p. 53.

nalism, and in the long run, does not benefit the very interests for which it was enacted.

We denounce the Republican tariff laws which are written in great part in aid of monopolies and thus prevent that reasonable exchange of commodities which would enable foreign countries to buy our surplus agricultural and manufactured products with resultant benefits to the toilers and producers of America. Trade interchange, on the basis of reciprocal advantages to the countries participating, is a time-honored doctrine of Democratic faith. We declare our party's position to be in favor of a tax on commodities entering the customhouses that will promote effective competition, protect against monopoly, and at the same time produce a fair revenue to support the Government.

An additional reference to the tariff was also found in the plank on agriculture which pledged "to restore the farmer again to economic equality with other industrialists" and to do so in part by adjusting "the tariff so that the farmer and all other classes can buy again in a competitive manufacturers' market."

The Republican Platform of 1928. The tariff plank offered by the Republican party in 1928 was notable because of its extraordinary length:

We reaffirm our belief in the protective tariff as a fundamental and essential principle of the economic life of this Nation. While certain provisions of the present law require revision in the light of changes in the world competitive situation since its enactment, the record of the United States since 1922 clearly shows that the fundamental protective principle of the law has been fully justified. It has stimulated the development of our natural resources, provided fuller employment at higher wages through the promotion of industrial activity, assured thereby the continuance of the farmer's major market, and further raised the standards of living and general comfort and well-being of our people. The great expansion in the wealth of our Nation during the past 50 years, and particularly in the past decade, could not have been accomplished without a protective tariff system designed to promote the vital interests of all classes.

Nor have these manifest benefits been restricted to any particular section of the country. They are enjoyed throughout the land either directly or indirectly. Their stimulus has been felt in industries, farming sections, trade circles, and communities in every quarter. However, we realize that there are certain industries which can not now successfully compete with foreign producers because of lower foreign wages and a lower cost of living abroad, and we pledge the next Republican Congress to an examination and where necessary a revision of these schedules to the end that American labor in these industries may again command the home market, may maintain its standard of living, and may count upon steady employment in its accustomed field.

Adherence to that policy is essential for the continued prosperity of the country. Under it the standard of living of the American people has been raised to the highest levels ever known. Its example has been eagerly followed by the rest of the world whose experts have repeatedly reported with approval

the relationship of this policy to our prosperity, with the resultant emulation of that example by other nations.

A protective tariff is as vital to American agriculture as it is to American manufacturing. The Republican Party believes that the home market, built up under the protective policy, belongs to the American farmer, and it pledges its support of legislation which will give this market to him to the full extent of his ability to supply it. Agriculture derives large benefits not only directly from the protective duties levied on competitive farm products of foreign origin but also, indirectly, from the increase in the purchasing power of the American workmen employed in industries similarly protected. These benefits extend also to persons engaged in trade, transportation, and other activities.

The tariff act of 1922 has justified itself in the expansion of our foreign trade during the past five years. Our domestic exports have increased from 3.8 billions of dollars in 1922 to 4.8 billions in 1927. During the same period imports have increased from 3.1 billions to 4.4 billions. Contrary to the prophesies of its critics, the present tariff law has not hampered the natural growth in the exportation of the products of American agriculture, industry, and mining, nor has it restricted the importation of foreign commodities which this country can utilize without jeopardizing its economic structure.

The United States is the largest customer in the world today. If we were not prosperous and able to buy, the rest of the world also would suffer. It is inconceivable that American labor will ever consent to the abolition of protection, which would bring the American standard of living down to the level of that in Europe, or that the American farmer could survive if the enormous consuming power of the people in this country were curtailed and its market at home, if not destroyed, at least seriously impaired.

The Democratic Platform of 1928. The Democratic convention in 1928 offered its tariff credo in the following form:

a) The maintenance of legitimate business and a high standard of wages for American labor.

b) Increasing the purchasing power of wages and income by the reduction of those monopolistic and extortionate tariff rates bestowed in payment of political debts.

c) Abolition of log rolling and restoration of the Wilson conception of a fact-finding Tariff Commission, quasi judicial and free from the Executive domination which has destroyed the usefulness of the present commission.

d) Duties that will permit effective competition, insure against monopoly, and at the same time produce a fair revenue for the support of Government. Actual difference between the cost of production at home and abroad, with adequate safeguard for the wage of the American laborer, must be the extreme measure of every tariff rate.

e) Safeguarding the public against monopoly created by special tariff favors.

f) Equitable distribution of the benefits and burdens of the tariff among all.

Wage earner, farmer, stockman, producer, and legitimate business in general have everything to gain from a Democratic tariff based on justice to all.

The Hawley-Smoot Tariff of 1930. In the platforms of 1928 the Republicans promised, as may be seen from the above, a continuance of the protective system and a "revision in the light of changes in the world competitive situation" since 1922 and "an examination and where necessary a revision" of the schedules for "certain industries which can not now successfully compete with foreign producers because of lower foreign wages and a lower cost of living abroad." But this revision hardly foreshadowed the actual tariff that resulted. President Hoover asked Congress for a "limited revision," but, as Professor Dewey has aptly remarked, "It is practically impossible . . . . once the tariff is opened up for revision, to confine changes to a limited range."[4] That this was true is indicated by the fact that one-third of the rates of the Fordney-McCumber Act were changed—there being 809 increases (including 50 items hitherto free) and 235 decreases (including 75 transfers to the free list). The Democrats harped, in turn, on the maintenance of "legitimate" industry and duties which would not only "produce a fair revenue" and permit "effective competition" but also have an eye on the differences between foreign and domestic costs of production.

The legislative history of the bill, though over a year in length, had few dull moments. The testimony at public hearings covered almost 20,000 pages; the potential number of items under discussion came to 25,000; Senator Moses of New Hampshire called some western Senators "sons of wild jackasses;" and long drawn out debates on the rate to be charged on tomatoes were the order of the day. Although not much public attention was paid to the bill while in the House, the publication when it reached the Senate brought out a flood of protest. That the Senators were aware of the foreign reaction to some of the rates is evidenced by their publication of the foreign communications received up to July 26, 1929.[5] The publication covers three months of communications from twenty-four nations which fill over two hundred pages. Austria, Belgium, Czechoslovakia, Denmark, the Dominican Republic, France, Great Britain (for herself and for India, Bermuda, the Bahamas, Australia, British West Indies), Greece, Guatemala, Honduras, Irish Free State, Italy, Japan, Mexico, The Netherlands, Norway, Paraguay, Persia, Rumania, Spain, Sweden, Switzerland, Turkey, and Uruguay indicated their deep concern over the bill.

The commodities covered by the communications included tartaric

[4] Dewey, Davis R., *Financial History of the United States* (New York: Longmans, Green & Co., 1934), p. 531.

[5] "Tariff Act of 1929," *Hearings before a Subcommittee of the Committee on Finance, U.S. Senate (71st Cong., 1st sess.), on H.R. 2667* (Washington, D.C.: U.S. Government Printing Office, 1929).

acid, agate buttons, alfalfa seed, almonds, artificial flowers, artificial silk, asbestos, bananas, beans, bent-wood furniture, bone china, brick, brierwood pipes, broad silks, flower bulbs, butter, camphor, canned goods, decolorizing carbons, carpets, carrots, cashew nuts, cattle, celery, cement, chalk, cheese, chenille rugs, cherries, chicory, chinaware, cocoa and chocolate, cigar and cigarette holders, clams, cod roe, coffee, combs, cork, corn, cotton and wool mixed cloth, cotton floor coverings, cotton manufactures, crockery, currants, diamonds, dolls, electric meters, feathers, figs, filberts, fish, fishing tackle, flaxseed, natural flint, dried fruits, garlic, gelatin, plate and window glass, gloves, glue, Gobelins, granite, grapes, hard-rubber goods, hat braids, fur-felt and straw hats, hides, hollow drill steel, imitation pearls and jewelry, Jacquard-figured silks, laces, lamé fabrics, lead pencils, leather, lemons, lettuce, limes, lily bulbs, linen, linseed oil, mackerel, marble, matches, fresh meats, menthol, mushrooms, olive oil, onions, photographic paper, peas, steel pens, canned peppers, phosphate of soda, pimentos, potatoes, quebracho extract, rennet, revolvers, rice, shoes, sponges, statuary, surgical instruments, wrapper tobacco, tomato paste, tomatoes, toothbrushes, celluloid toys, tulle, and wool and woolen products.

At first this seems like a long list. More than that, its communications appear as foreign interference almost not to be tolerated by a sovereign nation. Yet analysis will show that many of the items are not competitive with American items because they come from different climates or are resources not found in this country. Others, again, are products which differ in quality from our own products. Still others are of the type that we re-export as finished goods after processing or manufacturing stages. Few, if any, can be regarded as competing with products of American "infant" industries.

On the other hand, many of these products are vital to the protesting countries since they constitute important export items. For example, take cashew nuts—a delicacy to be sure, but not essential to us. The communication from British India is self-explanatory: "Please protest vigorously against States proposition of increase in duty on cashews because 1,000 per cent increase unjustified whilst United States not producing cashews otherwise cashew industry in British India will be destroyed."

The communications in general, while couched in diplomatic language, hardly succeed in covering up the threat that, if the pleas were ignored, some sort of retaliation would follow. For example, the Greek communication read: "The Minister of Greece avails himself of this opportunity to point out that the export of American products, agricultural as well as industrial, holds the first place in Greek imports, and whatever changes occurring in the tariff would necessarily affect the purchasing power of Greece to the detriment of American goods."

The Italian Embassy ended its appeal for moderation in the rates on

tomato paste in these terms: "A deep sense of apprehension already exists in Italy concerning the tariff revision now being discussed by the Congress of the United States." The Belgian ambassador stated: "I have been recently officially informed different groups of business men have protested to the Belgian Government and urged that steps be taken to counteract the effect which increased duties would have upon the economic relations between Belgium and the United States."

The Swiss minister, after pointing out that the proposed tariff struck at his country's two most important industries (watches and embroideries), felt constrained to remark: "It is not surprising, therefore, that the developments of this situation should be followed by the whole public opinion in Switzerland with deep concern." From France came the following communication: "The study of the bill of law now submitted to the House of Representatives has aroused lively protests in France on the part of numerous groups of exporters and manufacturers. The special situation resulting from the agreement of October, 1927, by which the minimum French tariff has been granted to almost all American merchandise without the slightest corresponding advantage having been obtained for French trade gives a serious character to these complaints which seems to merit the attention of the two governments."

The Japanese government reminded us that "Japan's purchasing power is in a large measure derived from her exports, especially from that to the United States. Any decrease in her exports to the United States, therefore, can not but reduce her demand for American products—a situation not quite agreeable to the foreign trade of both countries."

The Protest of the Economists. The protests and warnings were not confined to traders. On May 5, 1930, in a step hitherto unprecedented, 1,028 American economists asked President Hoover to veto the Hawley-Smoot bill. We print the communication in full not only to throw light on the present discussion but to answer an oft-recurring question, "Why don't the economists do something about the tariff?"

The undersigned American economists and teachers of economics strongly urge that any measure which provides for a general upward revision of tariff rates be denied passage by Congress, or if passed, be vetoed by the President.

We are convinced that increased restrictive duties would be a mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. By raising prices they would encourage concerns with higher costs to undertake production, thus compelling the consumer to subsidize waste and inefficiency in industry.

At the same time they would force him to pay higher rates of profit to established firms which enjoyed lower production costs. A higher level of duties, such as is contemplated by the Smoot-Hawley bill, would therefore raise the cost of living and injure the great majority of our citizens.

Few people could hope to gain from such a change. Miners, construction,

transportation, and public utility workers, professional people and those employed in banks, hotels, newspaper offices, in the wholesale and retail trades and scores of other occupations would clearly lose, since they produce no products which could be specially favored by tariff barriers.

The vast majority of farmers would also lose. Their cotton, pork, lard and wheat are export crops and are sold in the world market. They have no important competition in the home market. They cannot benefit, therefore, from any tariff which is imposed upon the basic commodities which they produce.

They would lose through the increased duties on manufactured goods, however, and in a double fashion. First, as consumers they would have to pay still higher prices for the products, made of textiles, chemicals, iron and steel, which they buy. Second, as producers their ability to sell their products would be further restricted by the barriers placed in the way of foreigners who wished to sell manufactured goods to us.

Our export trade, in general, would suffer. Countries cannot permanently buy from us unless they are permitted to sell to us, and the more we restrict the importation of goods from them by means of even higher tariffs, the more we reduce the possibility of our exporting to them.

This applies to such exporting industries as copper, automobiles, agricultural machinery, typewriters and the like fully as much as it does to farming. The difficulties of these industries are likely to be increased still further if we pass a higher tariff.

There are already many evidences that such action would inevitably provoke other countries to pay us back in kind by levying retaliatory duties against our goods. There are few more ironical spectacles than that of the American Government as it seeks, on the one hand, to promote exports through the activity of the Bureau of Foreign and Domestic Commerce, while, on the other hand, by increasing tariffs it makes exportation even more difficult.

We do not believe that American manufacturers, in general, need higher tariffs. The report of the President's Committee on Recent Economic Changes has shown that industrial efficiency has increased, that costs have fallen, that profits have grown with amazing rapidity since the end of the World War. Already our factories supply our people with over 96% of the manufactured goods which they consume, and our own producers look to foreign markets to absorb the increasing output of their machines.

Further barriers to trade will serve them not well, but ill.

Many of our citizens have invested their money in foreign enterprises. The Department of Commerce has estimated that such investments, entirely aside from the war debts, amounted to between $12,555,000,000 and $14,555,000,000 on January 1, 1929. These investors, too, would suffer if restrictive duties were to be increased, since such action would make it still more difficult for their foreign debtors to pay them the interest due them.

America is now facing the problem of unemployment. The proponents of higher tariffs claim that an increase in rates will give work to the idle. This is not true. We cannot increase employment by restrictive trade. American industry, in the present crisis, might well be spared the burden of adjusting itself to higher schedules of duties.

Finally, we would urge our government to consider the bitterness which

a policy of higher tariffs would inevitably inject into our international relations. The United States was ably represented at the world economic conference which was held under the auspices of the League of Nations in 1927. This conference adopted a resolution announcing that "the time has come to put an end to the increase in tariffs and to move in the opposite direction."

The higher duties proposed in our pending legislation violate the spirit of this agreement and plainly invite other nations to compete with us in raising further barriers to trade. A tariff wall does not furnish good soil for the growth of world peace.

The originators and first signers were Professor Paul Douglas, Irving Fisher, Frank Graham, E. M. Patterson, Henry R. Seager, Frank W. Taussig, and Clair Wilcox. The subsequent signatures came from 46 states and 179 colleges.[6]

That the predictions of these economists and the "threats" of other nations were more than fulfilled has been shown in an extremely interesting volume entitled *Tariff Retaliation: Repercussions of the Hawley-Smoot Bill* by Joseph M. Jones, Jr., appearing in 1934. In a book of over 350 pages the author considers the effects of the tariff of 1930 in our relations with Spain, Italy, Switzerland, France, Canada, Great Britain, and Austria. This work is another volume which every student of international relations must read.

In his introduction Mr. Jones states:

The Hawley-Smoot Tariff of 1930 has doubtless occasioned more comment, more controversy, more vituperation in the national as well as in the international sphere than any other tariff measure in history. National agitation in regard to a general tariff revision is a natural phenomenon in American history, but never has the United States in peace time experienced such an extended and violent reaction to any piece of local legislation as that attending the Tariff Act of 1930.[7]

The repercussions can be divided into three classes: "Firstly, widespread retaliation and discrimination against American exports; secondly, very definite effects upon the commercial policies of the principal trading nations of the world and upon the general development of the principles of commercial policy throughout the world; and thirdly, as a result of the developments included in the first two classes, the fatal undermining of the principles upon which American tariff and commercial treaty-making are based."[8]

"The Hawley-Smoot tariff in the United States," according to the League of Nations *World Economics Survey* (1932–33), "was the signal

[6] *New York Times*, May 5, 1930.

[7] Jones, Joseph M., Jr., *Tariff Retaliation: Repercussions of the Hawley-Smoot Bill* (Philadelphia: University of Pennsylvania Press, 1934), p. 1.

[8] *Ibid.*, pp. 1–2.

for an outburst of tariff-making activity in other countries, partly at least by way of reprisals. Extensive increases in duties were made almost immediately by Canada, Cuba, Mexico, France, Italy, Spain. During 1931, general tariff increases were announced by India, Peru, Argentine, Brazil, China, Italy, Lithuania."[9] British preferential tariff rates also reflected the reaction of the British Commonwealth of Nations.

Tariff Retaliation: Spain. Let us review some of Mr. Jones' findings. In the case of Spain, a country which gave us favored commercial treatment without ever having demanded tariff concessions from us, we seem to have followed a most unfortunate policy. Under the guise of keeping out the Mediterranean fruit fly, we kept out Spain's agricultural products. On the charge that Spanish fish had eaten a poisonous seaweed, we refused to allow the importation of canned fish from Spain; and because her canned beans contained a negligible quantity of copper sulphate, they too, were excluded. Other difficulties arose over garlic, almonds, paprika, revolvers, olive oil, and mineral water. Spanish onions were subjected to increasing duties—from 1 cent per pound in 1922 to 2½ cents in 1930. Finally, the cork industry was given a fatal blow. In 1929 we were purchasing 51 per cent of the cork exported in spite of the tariff imposed in 1922. The act of 1930 provided a specific rate of 8 cents for each pound of cork bark. Bottle stoppers were assessed 25 to 75 cents per pound depending on size, perforated cork penholder grips $2.00 per pound, and so on. Our further requirement that each cork be stamped "Made in Spain" placed a burden which in some cases cost more than the cork stopper itself.

Spanish retaliation took the form of increased rates against American manufactured exports. The tariff on automobiles was increased 100 to 150 per cent with an additional tax imposed on automobiles shipped unassembled to Europe. Duties on sewing machines and parts, safety razor blades, films, motorcycles, and similar products were increased enormously—about 700 per cent in the case of safety razor blades. Not only did our exporters suffer the loss of the Spanish market, but circumstances played into the hands of French exporters, who, sensing the conflict, had within six weeks sent a brilliant crew of commercial experts to negotiate a treaty with Spain. By giving a special rate on wine, together with other concessions, France found herself enjoying preferential treatment on practically all the commodities which our exporters had lost. In this way we ruined a trade relationship which amounted annually to about $79,300,000 in sales, as opposed to the $35,800,000 of purchases from Spain.

Tariff Retaliation: Switzerland. The Swiss market was another good market which was alienated by our tariff policy. Switzerland's chief ex-

[9] *Ibid.*, p. 193.

port industry was watches, and our rates on them in 1930 proved almost prohibitive. Since we usually purchased about one-sixth of her entire output, it is not difficult to picture the consternation of the industry. But in harming her watch industry we were doing much more. Someone has remarked that the Swiss, lacking a navy or a military history, have centered their national pride in watchmaking. Hence we had insulted a nation. Mass meetings were held all over Switzerland, and the boycott of American goods was insisted upon. This sort of thing persisted for about a year. "No more American automobiles," became their cry, "no more American typewriters, no more American fountain pens, and no more American films to be shown in Switzerland as long as our export trade is threatened." Needless to say, other countries seized this opportunity and began to supply the Swiss with the commodities formerly obtained from us.

Tariff Retaliation: Italy. The Italian reaction took the form of indignant editorials charging that the United States was attempting to corner the gold supply and ruin the entire world, especially Italy. The campaign against American automobiles was especially bitter. Italian drivers were embarrassed and annoyed by having their tires punctured, their windows spat upon or broken, and further harassed by the Royal Automobile Club of Italy which wanted to publicize the names of all Italians buying American automobiles and to demand an official statement of reasons for their choice. The importation of new cars was stopped by unheard-of duties. For example, a duty of $815.50 was imposed on each Ford car; $950 on a Plymouth; $1,385 on a Chrysler 77; and $1,660 on each Chrysler Imperial. American agencies closed up by November, 1930, and Ford closed his assembly plant. In general an increase of 15 per cent was placed on practically everything that was not assessed at a higher rate. Mussolini's dictum was unmistakable: "We will make purchases only in those countries which will buy our agricultural products, our marble, our cars, our ships, our silk, our wool and cotton manufactures. We will buy in the United States only the amount of goods equivalent to the amount of goods the United States will buy in Italy. We will purchase the rest elsewhere." A noticeable increase in the amount of Russian goods purchased by Italy took place almost at once—from $18,000,000 in 1929 to $29,000,000 in 1930, and $29,500,000 in 1931, while Italy's exports to Russia increased 170 per cent from 1930 to 1931.

Tariff Retaliation: Canada. One more of Jones' illustrations, that of Canada's reactions to the Hawley-Smoot Tariff, is especially significant. "The mutilation of the billion dollar market that was Canada," says Mr. Jones, "may be regarded as the most deplorable and the most costly single fruit of the Hawley-Smoot Tariff." It seems almost as if a studied attempt had been made to irritate this fine northern neighbor. The doubling of the tariff on halibut offended the eastern provinces; that on dairy

products and potatoes angered Quebec and Ontario; that on cattle, fresh meats, and grains provoked the prairie and western provinces; while British Colombia was enraged by the rates on apples and lumber.

Although the Canadian government had been friendly to the United States, she hit at 125 of our exports such as textiles, agricultural implements, electrical apparatus, meats, gasoline, shoes, paper, cast-iron pipe, fertilizers, household equipment, jewelry, iron and steel, and automobiles. There were two other results—an exodus of American manufacturing plants to Canada and the enlargement of British preference. Chemical products are a good example of this latter. Chemicals produced in England were to enter Canada duty-free; those from many other countries were to be assessed 10 per cent ad valorem; but those coming from the United States were charged 25 per cent ad valorem.

Structure of the Hawley-Smoot Tariff. The Hawley-Smoot Act of 1930, together with its index, is a book of 283 pages. This constitutes a tremendous growth over the act of 1816 which covered but 4½ pages.[10] It is divided into four sections known as "Titles." Title I is the Dutiable List; Title II, the Free List; Title III, includes the Special Provisions; and Title IV, the Administrative Provisions.

Title I, the Dutiable List, is made up of fifteen schedules:

Schedule 1. CHEMICALS, OILS AND PAINTS.

This schedule, in turn, is subdivided into paragraphs beginning with No. 1 and including No. 97. This schedule not only included the items one would expect to find under its caption but also medicines and drugs, ink, flavorings and extracts, fruit juices, vegetable oils such as castor oil and coconut oil, perfumes, castile soap, starch, turpentine, dynamite, and wood tar.

Schedule 2. EARTHS, EARTHENWARE, AND GLASSWARE.

The numbers of the paragraph begin with 201 and end with 236. This schedule not only includes the items suggested by the caption but the manufactured products like bricks, tiles, cement, statues, pumice stone, mica, graphite, carbons and electrodes, glass bottles and containers, glass, chandeliers, kitchen utensils of glass, sheet and plate glass, eyeglasses and goggles, spectroscopes, etc., incandescent electric light bulbs, stained glass windows, marble, granite, slate, watch crystals.

Schedule 3. METALS AND MANUFACTURES OF.

Paragraphs 301 through 398. Iron, manganese ore, molybdenum, tungsten, ferromanganese, steel, wire, galvanized ware, anchors, electric storage batteries, axles, wheels, jeweler's anvils, cast iron pipe, chains, nuts and washers, nails and tacks, horse shoes, steel wool, screws, saws, umbrella ribs, knitting and

[10] Schattschneider, E. E., *Politics, Pressures and the Tariff* (New York: Prentice-Hall, Inc., 1935), p. 22.

other needles, belt buckles, hooks and eyes, pens, pins, penknives and all other sorts of knives, scissors, safety razors, bells, guns and rifles, watch movements, automobiles, bicycles, aluminum, copper sheets, etc., quicksilver, metal bottle caps, zinc products, and so on.

Schedule 4. WOOD AND MANUFACTURES OF.

Paragraphs 401 through 412. Timber of all sorts, veneers, casks, barrels, boxes, toothpicks, clothespins, furniture, paint brush handles, etc.

Schedule 5. SUGAR, MOLASSES, AND MANUFACTURES OF.

Paragraphs 501 through 506. Maple sugar, candy, confectionery.

Schedule 6. TOBACCO AND MANUFACTURES OF.

Paragraphs 601 through 605. This schedule includes snuff and cigarettes.

Schedule 7. AGRICULTURAL PRODUCTS AND PROVISIONS.

Paragraphs 701 through 783. Cattle, meat, tallow, dried blood albumen, sheep, lambs, goats, swine, lard, whole milk and all dairy products, birds, fowls, eggs, horses and mules, honey, fish of every sort, crab meat, clams, caviar, oysters, barley, buckwheat, corn, macaroni, noodles, oats, rice, rye, wheat, bran, biscuits, cake, apples, apricots, berries, cherries, cider, fruit peel, figs, dates, grapes, lemons, olives, peaches, mangoes, pineapples, plums, pears, jellies, tulip bulbs, seedlings, almonds, other nuts, peanuts, grass seed, other seeds, beans, lentils, mushrooms, peas, onions, potatoes, turnips, vegetables, acorns, dandelion roots, cocoa and chocolate, hay, hops, spices, cotton, etc.

Schedule 8. SPIRITS, WINES, AND OTHER BEVERAGES.

Paragraphs 801 through 815. Brandy, champagne, ale, beer, fruit juices containing alcohol, concentrated fruit juices, ginger ale, lemonade, all mineral waters, wines.

Schedule 9. COTTON MANUFACTURES.

Paragraphs 901 through 924. Yarn, sewing thread, cloth, gauze, tapestries, table damask, sheets, pillow-cases, gloves and mittens, hose, underwear, clothing, lace curtains, etc., rags, rag rugs, chenille rugs, etc.

Schedule 10. FLAX, HEMP, JUTE, AND MANUFACTURES OF.

Paragraphs 1001 through 1023. Hose suitable for gas or liquids, fabrics, handkerchiefs, bags and sacks, inlaid linoleum, straw matting.

Schedule 11. WOOL AND MANUFACTURES OF.

Paragraphs 1101 through 1122. Cloth, yarn, blankets, felts, carpets and rugs, the hair of sheep, camels, angora and cashmere goats, alpaca, etc. are included in the term "wool."

Schedule 12. SILK MANUFACTURES.

Paragraphs 1201 through 1211. All products made of silk—thread, cloth, clothing, tassels, handkerchiefs, etc.

Schedule 13. MANUFACTURES OF RAYON OR OTHER SNYTHETIC TEXTILES.

Paragraphs 1301 through 1313. All of the coventional items made from rayon or from "other synthetic textile"—"made by any artificial process from cellulose . . . . which product is solidified into filaments, fibers, bands, strips, or sheets, whether such products are known as rayon, staple fiber, visca, or cellophane . . . ."

Schedule 14. PAPERS AND BOOKS.

Paragraphs 1401 through 1413. Wallboard, cardboard, tissue paper, carbon paper, pictures, calendars, cigar bands, labels, envelopes, photograph and other albums, playing cards.

Schedule 15. SUNDRIES.

Paragraphs 1501 through 1559. As the title implies, this schedule contains a great number of items. We shall only mention some of them in order to give some idea as to the nature of the items—asbestos products, boxing gloves, tennis balls, beads, straw hats, brooms, tooth brushes, buttons, corks, dice, chessmen, dolls, toy games, Christmas tree decorations, sandpaper, firecrackers, feathers, furs, fans, human hair, men's silk or opera hats, jewelry, laces, corsets, boots and shoes, gloves, artificial flies, candles, rubber products, electrical insulators, musical instruments, sponges, works of art, peat moss, fountain pens, cameras, pipes, thermos bottles, parasols, beeswax, etc.

In the above schedules it will be noted that the paragraph numbers coincide with the number of the schedule—Schedule 3, for example, beginning with 301 and Schedule 4, beginning with 401. In the case of practically every item, moreover, rather detailed information is included in connection with the rate to be assessed. For example, the paragraph dealing with files reads:

Files, file blanks, rasps, and floats, of whatever cut or kind, two and one-half inches in length and under, 25 cents per dozen; over two and one-half and not over four and one-half inches in length, 47½ cents per dozen; over four and one-half and under seven inches in length, 62½ cents per dozen; seven inches in length and over, 77½ cents per dozen.

The paragraph imposing duties on cork is as follows:

Cork bark, cut into squares, cubes, or quarters, 8 cents per pound; stoppers, over three-fourths of one inch in diameter, measured at the larger end, wholly or in chief value of natural cork bark, 25 cents per pound; wholly or in chief value of artificial, composition, or compressed cork, 10 cents per pound; stoppers, three-fourths of one inch or less in diameter, measured at the longer end, wholly or in chief value of natural cork bark, 31 cents per pound; wholly or in chief value of artificial, composition, or compressed cork, 12½ cents per pound; perforated or hollow corks, commonly or commercially known as shell corks,

75 cents per pound; perforated cork penholder grips, $2 per pound; disks, wafers, and washers, three-sixteenths of one inch or less in thickness, made from natural, composition, or compressed cork, 12½ cents per pound; cork, commonly or commercially known as artificial, composition, or compressed cork, in the rough and not further advanced than slabs, blocks, planks, rods, sticks, or similar forms, 10 cents per pound; manufactures wholly or in chief value of artificial, composition, or compressed cork, finished or unfinished, not specially provided for, 16 cents per pound; clean, refined, or purified, granulated or ground cork, weighing not over six pounds per cubic foot uncompressed, 3 cents per pound; all other ground, granulated, or regranulated cork, 1 cent per pound; cork insulation, wholly or in chief value of cork, cork waste, or granulated or ground cork, in blocks, slabs, boards, or planks, 2½ cents per board foot; cork pipe coverings, cork fitting covers, and cork lags, wholly or partly manufactured, coated or uncoated, 5 cents per pound; cork tile in the rough or wholly or partly finished, over three-eights of one inch in thickness, 6 cents per pound; three-eights on one inch or less in thickness, 10 cents per pound; cork paper, 30 per centum ad valorem; and manufactures wholly or in chief value of cork bark or cork, not specially provided for, 45 per centum ad valorem.

Title II, Free List.—The Free List is also known as "Schedule 16." It begins with paragraph 1601 and ends with paragraph 1814. The items follow an alphabetical arrangement, though apparently departing from it where related items, not beginning with the same letter, are concerned. The list contains a number of basic raw materials and agricultural products such as antimony ore, bananas, borax, gold and silver bullion, chalk, chromite or chrome ore, coal, certain coal-tar products, cobalt, cocoa, coffee, copper ore, certain cotton, rough or uncut gems, various drugs such as barks, certain tanning and dyeing materials, iodine, iron ore, certain vegetable oils, radium, raw silk, sulphur, tin, and certain wood products. A number of these are not produced in this country, hence their presence on the free list is not especially significant except that a certain amount of revenue is being sacrificed.

There are other items which are rather startling. These include broken bells, Bibles, bread, dried blood, bones, books intended for the Library of Congress, cuttlefish bone, bird eggs, fossils, hides and skins of India water buffalo, unmanufactured hoofs, ice, ivory tusks, joss sticks, lava, leeches, fancy or racing pigeons, sheep dip, skeletons, spunk, altars and pulpits, tagua nuts, tamarinds, natural teeth, turtles, typewriters, worm gut, and zaffer!

Title III, Special Provisions.—Title III is subdivided into Part I, Miscellaneous; and Part II, United States Tariff Commission. Under Part I there are provisions regarding the Philippine Islands, Puerto Rico; countervailing duties; marking of imported articles; importation restrictions on immoral articles, cattle, sheep, swine, and meats, convict-made goods;

temporary free importation under bond for exportation; supplies for certain vessels; free importation of merchandise recovered from sunken and abandoned vessels; bonded manufacturing and smelting warehouses; drawbacks and refunds; reimportation of tax-free exports; effective date of rates of duty; and so on. Part II has to deal with the organization of the Tariff Commission, membership, general powers, co-operation with other agencies, unfair practices in import trade, and discrimination by foreign countries.

Title IV, Administrative Provisions.—Title IV contains some essential definitions, the bases of value for imported goods, the laws underlying the arrival of cargoes and their unlading, the procedure for the ascertainment, collection, and recovery of duties, protest against collection decisions, the make-up and duties of the United States Customs Court, methods whereby goods can be transported under bond, bonded warehouses, and the means of enforcement of all of the administrative provisions. In addition, some miscellaneous provisions are to be found covering customhouse brokers, and so on.

SUMMARY

1921 Emergency Tariff Act.—Intended to last six months, the law remained in effect until the Act of 1922 was passed. High duties on wheat, corn, meat, wool, and sugar were demanded by agricultural depression.

Act of 1922.—The Fordney-McCumber Act of 1922 offered extreme protection that few thought possible. It had a long legislative history, being in the Senate one year. Conference took two weeks. The free list was an empty gesture. The sugar rate was 2.206 cents per pound, but the effective rate was Cuban which was 20 per cent less. Clean wool was 31 cents per lb.; jewelry 80 per cent; laces 90 per cent; toys 70 per cent; chinaware 60 per cent plain and 70 per cent if ornamented. Dyes were hotly debated. The war argument was used to limit. Rates were 40 per cent (55 per cent until 1924) plus 7 cents per lb. on intermediate products; 45 per cent (60 per cent until 1924) plus 7 cents per lb. on finished coal tar dyes. American valuation was to be used, not the ordinary market value.

Hawley-Smoot Tariff of 1930.—The Republican platform of 1928 promised a "revision in the light of changes in the world competitive situation," but this hardly foreshadowed the extremely high tariff which resulted. After a legislative history of over a year in length and filled with unprecedented happenings (including a protest of 1,028 economists and numerous petitions from foreign governments), the bill became a law. It led to violent tariff repercussions the world over and was assigned

a major role in the world-wide depression of the thirties by a number of authorities.

Reciprocal Trade Agreements Act of 1934.—The victory of the Democratic party in the early thirties brought about a new kind of tariff. For the first time in our history, the new law was an amendment of the existing law. This amendment gave the President authority to negotiate Reciprocal Trade Agreements using the high rates of the Hawley-Smoot Tariff as the bargaining basis. He could reduce any rate by as much as 50 per cent but could not remove any item from either the free list to put it on the dutiable list or vice versa. This authority was to run for three years. It was renewed as each expiration date approached and is now scheduled to expire June 12, 1948. The most recent renewal permitted a further cut in rates of 25 per cent below what they were on January 1, 1945. Under the program a total of twenty-eight countries and their dependencies gave us tariff concessions and received concessions in return. The effects of the trade agreements were measurable up to the time of World War II, and, with the end of the war, a more ambitious program of agreement negotiation has been undertaken. This tariff law already holds the distinction of being the longest-lived in our history taken either from 1934 or 1930 when the original law was passed.

QUESTIONS FOR DISCUSSION

1. With what postwar problems were the emergency tariff of 1921 and the Fordney-McCumber Act of 1922 designed to cope? Do you think that these acts represented a realistic approach to those problems? Explain.
2. Discuss the reasons for and the nature of foreign opposition to the Hawley-Smoot Tariff bill.
3. On what grounds did the economists who signed the petition to President Hoover object to the Hawley-Smoot Tariff bill? What do you think of their arguments?
4. What were the effects of the Hawley-Smoot Tariff Act upon commerical relations between the United States and other countries? Cite specific examples of retaliatory measures adopted.
5. Discuss briefly the structure of the Hawley-Smoot Act.

Chapter XIV

THE PRESENT TARIFF OF THE UNITED STATES

The Depression of 1932. The Republican and Democratic conventions of 1932 met in the midst of a world-wide depression. How much of this depression was due to postwar conditions, questions of reparations and war debts, unsound financing, high tariffs and other trade policies, neomercantilism, speculation, and unsound currencies and how much was due to internal conditions and weaknesses in the capitalistic system is, of course, impossible to say. Since any one explanation must be inadequate, care must be taken not to pick out any one factor as the cause until it has become established that that one explanation or factor can apply to highly industrialized nations equally as well as to dominantly agricultural ones, to democratic as well as fascist nations, to Western as well as Eastern Hemisphere nations, to countries with high standards of living as well as to those with low standards, to rich ones as well as to poor ones, to capitalist as well as to communist nations. Unless one wants to blame something universal like sunspots and irritating particles in the atmosphere, it is necessary to recognize that a major factor in the world depression must be international trade relations. Whether these relations are themselves a cause of depression or whether they are the carriers of the contagion from nation to nation need not concern us now. But without carrying the analogy too far, it seems reasonable to argue that a nation, like a merchant, cannot lose its customers without finding new ones and yet go on as before without a fall in its standard of living and without the losses of the benefits and economies of territorial division of labor.

The state of world trade in 1933 has been described by the League Information Section as follows: "The total volume of goods exchanged between countries has diminished by about 30% in comparison with 1929. This aspect of world trade is especially serious. Previous crises never showed such a shrinkage in the volume of trade; on the contrary a fall in prices used to give rise speedily in the volume of trade which made it possible for the situation to improve."

In terms of dollars, our exports fell from $4,910,000,000 in 1925 and $5,421,000,000 in 1929 to $1,611,000,000 in 1932, while our imports fell from $4,227,000,000 in 1925 and $4,399,000,000 in 1929 to $1,323,000,000 in 1932. Our share in world trade, moreover, was falling, which meant that other countries were gaining by that much. This was true not only

in the European market but in the Central and South American markets as well. As President Roosevelt described the situation in 1933, world trade in terms of volume fell to 70 per cent of its 1929 volume, while in terms of dollars it declined to 35 per cent; but while our exports were 52 per cent of the 1929 volume, the value thereof was only 32 per cent—hence a sharper drop in United States foreign trade than in world trade.

That the tariff planks of the Republican party showed no recognition of the repercussions of the Hawley-Smoot Tariff or of its relationship to the depression may be seen from the text which we print below. The Republicans advocated the continuance of protection, gave credit to the Hawley-Smoot Tariff for better agricultural prices, and promised such revision as changing conditions required. But this, of course, was really not different from the pledge four years earlier.

The Republican Platform of 1932. The Republican platform of 1932 paid special attention to agriculture and addressed the farm voters in this fashion:

AGRICULTURE

In 1928 the Republican Party pledged further measures in aid of agriculture, principally tariff protection for agricultural products and the creation of a Federal Farm Board "clothed with the necessary power to promote the establishment of a farm marketing system of farmer owned and controlled stabilization corporations."

The 1930 tariff act increased the rates on agricultural products by 30 per cent, upon industrial products only 12 per cent. That act equalized, so far as legislation can do so, the protection afforded the farmer with the protection afforded industry and prevented a vast flood of cheap wool, grain, livestock, dairy and other products from entering the American market.

Due to the 1930 tariff act and the agricultural marketing act, it can truthfully be stated that the prices received by the American farmer for his wheat, corn, rye, barley, oats, flaxseed, cattle, butter, and many other products, cruelly low though they are, are higher than the prices received by the farmers of any competing nation for the same products.

Tariff and the marketing act—The party pledges itself to make such revision of tariff schedules as economic changes require to maintain the parity of protection to agriculture with other industry.

The American farmer is entitled not only to tariff schedules on his products but to protection from substitutes therefor.

THE TARIFF

The Republican Party has always been the staunch supporter of the American system of a protective tariff. It believes that the home market, built up under that policy, the greatest and richest market in the world, belongs first to American agriculture, industry, and labor. No pretext can justify the surrender of that market to such competition as would destroy our farms, mines,

and factories, and lower the standard of living which we have established for our workers.

Because many foreign countries have recently abandoned the gold standard, as a result of which the costs of many commodities produced in such countries have, at least for the time being, fallen materially in terms of American currency, adequate tariff protection is today particularly essential to the welfare of the American people. The Tariff Commission should promptly investigate individual commodities so affected by currency depreciation, and report to the President any increase in duties found necessary to equalize domestic with foreign costs of production.

To fix the duties on some thousands of commodities, subject to highly complex conditions, is necessarily a difficult technical task. It is unavoidable that some of the rates established by legislation should, even at the time of their enactment, be too low or too high. Moreover, a subsequent change in costs or other conditions may render obsolete a rate that was before appropriate. The Republican Party has, therefore, long supported the policy of a flexible tariff, giving power to the President, after investigation by an impartial commission, and in accordance with prescribed principles, to modify the rates named by Congress.

We commend the President's veto of the measure, sponsored by Democratic Congressmen, which would have transferred from the President to the Congress the authority to put into effect the findings of the Tariff Commission. Approval of the measure would have returned tariff making to politics and destroyed the progress made during 10 years of effort to lift it out of log-rolling methods. We pledge the Republican Party to a policy which will retain the gains made and enlarge the present scope of greater progress.

We favor the extension of the general Republican principle of tariff protection to our natural resource industries, including the products of our farms, forests, mines, and oil wells, with compensatory duties on the manufactured and refined products thereof.

The Democratic Platform of 1932. The tariff plank of the Democratic party, however, proposed something different—a program of bargaining with other nations to bring about reciprocal trade agreements:

We advocate a competitive tariff for revenue, with a fact finding tariff commission free from Executive interference, reciprocal tariff agreements with other nations, and an international economic conference designed to restore international trade and facilitate exchange . . . . We condemn the Hawley-Smoot Tariff law, the prohibitive rates of which have resulted in retaliatory action by more than forty countries, created international economic hostilities, destroyed international trade, driven our factories into foreign countries, robbed the American farmer of his foreign markets, and increased the cost of production.

The Framing and Passage of the Act. The victory of the Democratic party meant a change in tariff policy. In November, 1933, the

President addressed himself to the Secretaries of State, Treasury, Commerce, and Agriculture, to the chairman of the Tariff Commission, to the heads of the Agricultural Adjustment Administration authorizing the appointment of a committee to be composed of representatives of these departments. The committee, known as the "Executive Committee on Commercial Policy," was to co-ordinate various American policies in the realm of international trade and bring about some consistency. Dr. Sayre, who has served as chairman tells us that beginning in November of 1933 the committee held weekly meetings, during which the members discussed and determined policies. The problem of protecting and enlarging our export markets loomed large and the committee was unanimously in favor of a reciprocal trade program. Having drafted a bill satisfactory to the membership, they presented it at a White House Conference on February 28, 1934. The committee's draft proving acceptable, it was introduced into the House of Representatives together with a Message from the President.[1]

President Roosevelt's Message to Congress. President Roosevelt's Tariff Message to Congress asked for authority to be given the Executive "to enter into executive commercial agreements with foreign nations; and in pursuance thereof within carefully guarded limits to modify existing duties and import restrictions in such a way as will benefit American agriculture and industry."

He pointed out further that other governments were employing negotiated reciprocal trade agreements, and, also:

> If American agricultural and industrial interests are to retain their deserved place in this trade, the American government must be in a position to bargain for that place with other governments by rapid and decisive negotiation based upon a carefully considered program, and to grant with discernment corresponding opportunities in the American market for foreign products supplementary to our own.
>
> If the American government is not in a position to make fair offers for fair opportunities, its trade will be superseded.
>
> If it is not in a position at a given moment rapidly to alter the terms on which it is willing to deal with other countries it cannot adequately protect its trade against discriminations and against bargains injurious to its interests. Furthermore a promise to which prompt effect cannot be given is not an inducement which can pass current at par in commercial negotiations. . . .
>
> From the policy of reciprocal negotiation which is in prospect, I hope in time that definite gains will result to American agriculture and industry.
>
> Important branches of our agriculture, such as cotton, tobacco, hog products, rice, cereal and fruit-raising, and those branches of American industry whose mass production methods have led the world, will find expanded opportunities

[1] Sayre, Francis Bowes, *The Way Forward* (New York: Macmillan Co., 1939), pp. 54–57.

and productive capacity in foreign markets, and will thereby be spared in part, at least, the heartbreaking readjustments that must be necessary if the shrinking of American foreign commerce remains permanent.

A resumption of international trade cannot but improve the general situation and thus increase their purchasing power. Let us well remember that this in turn spells increased opportunity for American sales.

Legislation such as this is an essential step in the program of national economic recovery which the Congress has elaborated during the past year. It is part of an emergency program necessitated by the economic crisis through which we are passing. It should provide that the trade agreements shall be terminable within a period not to exceed three years; a shorter period probably would not suffice for putting the program into effect.

Hearings on the bill began on March 8, 1934, and lasted until March 14. Having won the approval of the Ways and Means Committee which introduced a few changes, it was presented together with a report to the House of Representatives by the chairman, Mr. Robert L. Doughton of North Carolina. The Report showed that since January 1, 1933, and within about one year, sixty-eight bargaining agreements had been entered into by various nations. It argued that the proposal was constitutional by tracing various tariff agreements in American history. It pointed to the need for guarding our export markets and proceeded to a detailed analysis of the bill. To some of these points we shall revert when treating of the amendment itself, but here we want merely to list a summary of the objections of the minority members of the committee:

1. It delegates to the President discretionary legislative power in tariff making —not simply an administrative power to apply a definite formula laid down in advance by Congress, such as is given under the present flexible tariff provisions—and thereby provides for an unconstitutional delegation of the supreme taxing power of Congress, contrary to what a prominent Democrat has called "the plainest and most fundamental provisions of the Constitution."
2. It has no counterpart in past legislation, Republican or Democratic, since in each previous reciprocity measure Congress has either fixed in advance the concessions or retaliations the President might use as a basis for negotiation, or it has reserved the right to both the House and Senate to approve or reject any treaty or agreement entered into by him.
3. Any previous legislation giving the President authority to put a prescribed legislative policy of Congress into effect upon the finding by him that a certain state of facts existed is no precedent for giving him the power under similar conditions to put into effect rates of duty which he himself prescribes.
4. If the expansion of our foreign trade seems desirable, it should be accomplished by existing constitutional means.
5. Although the bill attempts to lend itself a color of constitutionality by a

recitation that it is an emergency measure, yet by its own terms it has unlimited life, indicating that it is, and is intended to be, permanent legislation.

6. It contemplates the abandonment of the principle of protection for domestic industry, agriculture, and labor by allowing existing duties to be modified without reference to the difference in cost of production of domestic and foreign articles.
7. It strikes at the very heart of the President's own recovery program, and is wholly inconsistent with it, because any lowering of tariffs such as is scheduled to follow the enactment of the bill will further depress our great agricultural industry thus subjected to foreign competition and will make it impossible for domestic producers operating under industrial codes to compete with the resulting influx of cheap foreign goods produced by the pauper labor of Europe and the Orient, where living standards and production costs are far below those of this country.
8. It places in the hands of the President and those to whom he may delegate his authority the absolute power of life and death over every domestic industry dependent upon tariff protection, and permits the sacrifice of such industries in what will undoubtedly be a futile attempt to expand the export trade of other industries.
9. While no one would question the good faith and high purpose of the President in any action he might take under the powers conferred, such as the determination that a particular industry was not entitled to tariff protection, the fact is that he will not be able personally to give his attention to the negotiations incident to the conclusion of the contemplated trade agreements, but will be compelled to rely upon others whose opinions as to what is for the best interest of the country and the industries affected would not be entitled to the same measure of respect as his own.
10. The bill gives no indication as to what domestic industries may be put upon the auction block in the negotiation of foreign trade agreements, nor were any of the accredited representatives of the Administration appearing before the committee willing to give such an indication except in the most general and meaningless terms.
11. It provides no opportunity for domestic industries to be informed or heard with reference to any proposed Presidential tariff changes, even though their very existence is at stake.
12. In view of the apprehension which will constantly exist in the minds of all domestic producers over the possibility that their respective industries may, without notice or hearing, be sacrificed overnight for some alleged or passing advantage to an export product, the bill is not calculated to aid in the restoration and rehabilitation of domestic industry at large but does contain serious possibilities of disastrous consequences.
13. It presumes to give advance congressional approval to any trade agreements into which the President may enter, however injurious may be their effect upon any domestic industry or industries, thus making it impossible for Congress to rescind his authority except by passing new legislation over his veto, which would require a two-thirds vote of each House and

would at the same time place this Nation in the position of violating a completed and binding international agreement.

14. Instead of promoting our export trade where possible by such methods as the imposition of countervailing or retaliatory duties on noncompetitive foreign articles now enjoying free entry into the domestic market, such as silk, coffee, tea, rubber, etc., the bill contemplates the granting of tariff concessions on dutiable foreign articles coming into competition with domestic products. The Minority feel that instead of destroying branches of domestic agriculture and industry, the two thirds of our imports now coming into this country duty-free could well be used as a lever to secure favorable consideration for our exports in world markets.
15. The increased importation of competitive foreign goods will displace equal quantities of our own products, thus adding to the unemployment in the industries so affected and to overproduction.
16. Any hoped for increase in domestic exports as a result of permitting increased foreign imports will be largely illusory, since foreign countries will naturally buy in the cheapest market no matter how much of their goods we import, and unless we can meet world production costs and are prepared to sell at world prices we cannot compete in world markets. For this reason, the export trade we might gain will not offset the domestic trade we are bound to lose.
17. Foreign countries in most instances have the advantage in reciprocal bargaining, because their rates are generally known to be "padded" for trading purposes.
18. The bill fails to take account of the changed economic conditions throughout the world as evidenced by the nationalistic policies of all nations and the tendency of the agricultural countries to develop home manufactures and the manufacturing countries to produce so far as possible their own foodstuffs, the result of which has been a drying up of the old world markets.
19. It holds out the forlorn hope of increased foreign markets for our surplus products in the face of the well-known fact that they can be exchanged only for agricultural and industrial products with which we are already abundantly supplied.
20. The bill overemphasizes the importance of our export trade, the value of which in 1929 was but one-tenth that of the total domestic production of movable goods and one-seventeenth the amount of the national income. This clearly illustrates the fact that domestic prosperity is more dependent upon the home market than the foreign market, since it consumes 90 percent of what we produce and is responsible for approximately 95 percent of the national income.
21. It ignores the fact that this Nation is the world's richest market, with one half the business of the world being done within its borders. Foreign countries, however, are not insensible to this fact and will be insistent upon participating in this great market with no appreciable return benefit to our own people or home industries.
22. It erroneously presupposes that foreign trade consists of dollar-for-dollar

exchange between two nations, when as a matter of common knowledge it follows much the same course as domestic business, each nation selling its surpluses wherever it can find a demand for them, and buying in the cheapest market such articles as it does not produce, all without reference to the balance of trade with any country.

23. It is based upon the false premise that the decline in international trade is the cause, rather than the effect, of the depression. Our own experience shows us that the foreign trade of this country, both in imports and exports, was constantly on the increase up to the time of the 1929 crash.
24. To abandon our present policy of equal tariff treatment for all nations in favor of bilateral concessions to individual countries is a backward step which can only serve to breed further tariff wars and thus result in retaliation and discrimination against our goods in many foreign markets.[2]

Debate on the measure began in the House on March 23 and was acted on favorably (274 to 111) on March 29. Senate hearings were held from April 26 to May 1. Aside from a few amendments, the major change introduced called for "reasonable public notice of the intention to negotiate an agreement" in order to allow interested parties the opportunity to be heard. The bill was reported favorably on May 2, 1934, and came up for debate on May 17. Dr. Sayre describes the scene:

For days the battle raged. Speeches were made both for and against the bill, and these were followed by a general debate. During the consideration of the bill on the floor, a succession of amendments were offered by the opposition; generally speaking, these were drawn with an eye to win the votes of sectional groups or of lukewarm supporters but were framed in such a way as to obstruct or make impossible the effective operation of the act. When it became obvious that the bill could neither be beaten by an outright vote nor be buried by resorting to tactics of delay, it was agreed to limit further debate both on the bill and on the various amendments. An amendment providing that all agricultural tariffs should be exempt from the provisions of the act, designed to catch the vote of the farm bloc, was beaten by a vote of 54 to 33. Other amendments providing for Congressional approval of every trade agreement and for application of the cost of production formula were similarly beaten. On June 4th, after all crippling amendments had been beaten, the final vote was taken, and the bill was passed by a vote of 57 to 33.[3]

The Reciprocal Trade Agreement Amendment. The Reciprocal Trade Agreement Program became a law on June 12, 1934, and the power to negotiate was to run for three years. In 1937, it was renewed for another three years, and similar extensions of life have been voted since 1940. In form it was not a new tariff act but an amendment to the Hawley-Smoot Tariff to be known as "Section 350" and to be added at the end

[2] *Report No. 1000* to accompany H.R. 8687 (73d Cong., 2d sess.) (Washington, D.C.: U.S. Government Printing Office, 1934), pp. 21–23.
[3] *Ibid.*, pp. 58–59.

of Title III of that act. The text of the amendment is not lengthy. Its broad purposes, as expressed in the first paragraph, are two in number: to expand foreign markets for American exports and to regulate imports "in accordance with the characteristics and needs of various branches of American production which require and are capable of developing such outlets by affording corresponding market opportunities for foreign products in the United States." In effect this appears to involve a certain amount of economic planning, but this particular phase has not received special emphasis. The expected results as visualized in the amendment were to be a way out of the depression through restoration of the American standard of living, overcoming unemployment, increasing the purchasing power of the American public, and "establishing and maintaining a better relationship among the various branches of American agriculture, industry, mining, and commerce."

The authority granted the President, "whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States and that the purpose above declared will be promoted," is "to enter into foreign trade agreements with foreign governments." In so doing, he is permitted to "proclaim such modifications of existing duties and other import restrictions, such additional import restrictions, or such continuance, and for such minimum periods, of existing customs or excise treatment of any article covered by foreign trade agreements."

This authority is limited in that "no proclamation shall be made increasing or decreasing by more than 50 per centum any existing rate of duty or transferring any article between the dutiable and free lists." This gives to the President a bargaining power based on the very high rates of the Hawley-Smoot Tariff—the "best" possible set of rates from a negotiator's point of view. The amendment provides further that when the duties or other restrictions are once proclaimed they "shall apply to articles the growth, produce, or manufacture of all foreign countries." This provision has been most often misunderstood, and because of this fact much of the statistics as to improvements in our trade with agreement and nonagreement countries is vitiated. Since almost any country is the principal supplier of some particular commodity or commodities to the United States (for example, Brazil and coffee), it follows that concessions made to that principal supplier in return for advantageous concessions can then be generalized to all countries without harming anyone. Existing treaties promising most-favored-nation treatment (some forty-eight of them in 1934) demand this generalization of benefit and there are also advantages in standardized rates. But it is important to remember that improvements in the trade resulting cannot be read only in the figures of

trade-agreement countries. Generalization of concessions apply to more countries than this would imply. But, if any country discriminates against American commerce, the President may suspend the application. The President is specifically forbidden to use this act to cancel or reduce "in any manner, any of the indebtedness of any foreign country." The act further provides that public hearings shall be held before any agreement is concluded and that certain agencies such as the Tariff Commission, the Departments of State, Agriculture, and Commerce be consulted.

Then, too, the act provides that any sections of the Hawley-Smoot Tariff inconsistent with this amendment are repealed. But this also means that any provisions not repealed or amended are still applicable. Accordingly, Section 336 of the Hawley-Smoot Act, which is known as the "flexible provision," still is in force except in the case of such commodities for which trade agreements have fixed the rates at the existing level. The antidumping act of 1921 is still a part of the new system, as is the provision for levying countervailing duties to offset the effect of bounties or subsidies granted by other countries.

Any agreements made under the act can be terminated by our government giving notice "at the end of not more than three years from the date on which the agreement comes into force, and, if not then terminated, shall be subject to termination thereafter upon not more than six months' notice."

The act permits the continuance of a preferential treatment for Cuba without generalizing the benefits in keeping with the practice of other countries for certain regions and in view of our long and special relationship with this republic.

The "Newness" of These Provisions. At first glance these provisions might suggest that the Trade Agreements Act constituted a sharp departure from our traditional tariff system. But let us recall a bit of our commercial and tariff history to see what is really new or revolutionary about these provisions—namely, the right of the President to act within limits previously laid down by Congress, the right to enter into executive agreements with other countries, the use of reciprocity in tariff relations, the unconditional form of the most-favored-nation clause, and the use of flexible tariff provisions.[4]

It is not anything new for our Congress to lay down broad limits within which our President has been allowed a great amount of discretion, particularly as regards international relations. In 1794, the Congress passed an act providing that "the President of the United States be, and he hereby is authorized and empowered, whenever, in his opinion, the public safety shall so require, to lay an embargo on all ships and vessels in the ports of the United States, or upon the ships of the United States, or the

[4] The analysis here follows closely that of the Ways and Means Committee Report referred to above.

ships and vessels of any foreign nation, under such regulations as the circumstances of the case may require, and to continue or revoke the same, whenever he shall think proper."

Again in 1798, 1799, 1806, 1807, 1809, 1810, 1815, 1824, and 1828, discretionary powers over commerce were given if certain general conditions obtained. "In the execution of these several acts," the report states, "proclamations were issued" by Presidents Adams, Jackson, Polk, Fillmore, Buchanan, Lincoln, Grant, and Hayes.

"Irrespective of party and irrespective of political affiliations our Presidents have acted under and in pursuance of this authority. Nor did the exercise of authority stop there. Pursuant to section 4228 of the Revised Statutes (which has never been repealed), executive agreements were entered into providing for reciprocal abolition of discriminating duties on imports; and these agreements were brought into force by proclamations issued by the President. These agreements were not submitted to the Senate."

Again, tariff bargaining by the Executive is not new. It was authorized under the McKinley Tariff Act of 1890 (a Republican measure). In that act it was provided:

> . . . . whenever and so often as the President shall be satisfied that the government of any country producing and exporting sugars, molasses, coffee, tea, and hides, raw and uncured, or any of such articles, imposes duties or other exactions upon the agricultural or other products of the United States, which in view of the free introduction of such sugar, molasses, coffee, tea, and hides into the United States he may deem to be reciprocally unequal and unreasonable, he shall have the power and it shall be his duty to suspend, by proclamation to that effect, the provisions of this act.

Under this act, ten reciprocal agreements were concluded between January 31, 1891, and May 26, 1892; and the constitutionality of the provision was upheld by Mr. Justice Harlan who did not see in it the transfer of "legislative and treaty-making power to the President." Again under the Dingley Act of 1897 (also a Republican measure) the President was authorized to enter agreements. This he did with France, Portugal, Germany, Italy, Switzerland, Spain, Bulgaria, the Netherlands, and Great Britain during the years 1898–1909. None was submitted to the Senate, but all were fully recognized and fulfilled. On the other hand, and of particular interest, is the failure of another section of the act of 1897 to have any tangible result, namely, Section 4 which authorized reciprocal trade *treaties* to be negotiated. Although twelve were negotiated, not a single one was ratified by the Senate. Hence, not a single one went into effect.

Again under the Republican tariff of 1909, the President was authorized to apply the minimum schedule of duties by proclamation to countries

not discriminating against us. This he did in the form of 134 proclamations. Here, too, of course, no ratification by the Senate was needed. The Republican tariff of 1922 also gave the President authority to act by proclamation in applying the flexible provisions.

The Constitutionality of Flexible Provisions. The constitutionality of the flexible provisions and of protective tariffs themselves was decided in 1928 in the case of *J. W. Hampton, Jr. & Co.* v. *United States* (276 U.S. 394). The Hampton Company imported some barium dioxide. The collector assessed it, not at the rate in the tariff, but at the rate fixed by President Coolidge. This was 2 cents higher on each pound. The importer appealed to the Board of United States General Appraisers. The board was divided: two appraisers upheld the higher tax; one dissented. The Court of Customs Appeals upheld the presidential rate. The case then reached the United States Supreme Court on a writ of certiorari.

The case against the government ran along these lines: If a flexible tariff is legal, Congress can leave the determination of the actual rate to the discretion of executive functionaries. This would constitute an illegal designation of legislative and taxing powers. Furthermore, a levy, which is frankly protective in character, is unconstitutional because it constitutes a tax for a private purpose.

The government attorneys denied that there was any illegal delegation of powers. They further asserted that Congress has the power not only to tax foreign commerce but to regulate it. This latter power, it was argued, permitted restrictions against imports.

The court's decision was unanimous in upholding the government. Chief Justice Taft dismissed the plea that the restrictive tariff is unconstitutional:

> Whatever we may think of the wisdom of a protection policy, we cannot hold it unconstitutional. So long as the motive of Congress and the effect of its legislative action are to secure revenue for the benefit of the general government, the existence of other motives in the selection of the subjects of taxes cannot invalidate congressional action.
>
> The fact that Congress declares that one of its motives in fixing the rates of duty is so to fix them that they shall encourage the industries of this country in competition with producers in other countries in the sale of goods in this country, cannot invalidate a revenue act so framed.

In so far as an illegal delegation of powers was involved in the flexible provisions, the Court said: "The true distinction . . . . is between the delegation of power to make the law, which necessarily involves a discretion as to what it shall be, and conferring an authority or discretion as to its execution, to be exercised under and in pursuance of the law. The first can not be done; to the latter no valid objection can be made."

The Chief Justice thereupon laid down the principle that "If Congress

shall lay down by legislative act an intelligible principle to which the person or body authorized to fix such rates is directed to conform, such legislative action is not a forbidden delegation of legislative power."

Further legal sanction was given the tariff in 1933 in a case involving the University of Illinois (289 U.S. 48). The University had imported scientific instruments and took the position that, as an instrumentality of the state, it did not have to pay import duties. It maintained that when Congress enacts a law providing for import duties, the taxing power was being exerted and not the right to regulate commerce. In a unanimous decision, read by Chief Justice Hughes, the contention was overruled. Once again, it was held that the power of Congress to lay duties on imports derives not only from the power to tax but also from the commerce clause which provides for the regulation of commerce with foreign nations. The revenue resulting from such duties is to be regarded as an incident to such an exercise of power.

The argument that the University was an instrumentality of the state was likewise dismissed: "The fact that the State in the performance of state functions may use imported articles does not mean that the importation is a function of the state government independent of federal power. The control of importation does not rest with the State but with the Congress."

The Democratic Attitude toward Reciprocity. If, on the other hand, we look at the attitude of the Democrats toward reciprocity, we find that the reciprocity provisions were repealed in the Democratic tariff of 1894 and that they were restored by the Republicans in the act of 1897. Not until the Payne-Aldrich tariff of 1909 did the Republicans give up the principle of reciprocity. Neither party employed it after that until the Democrats made it a part of the New Deal tariff. Accordingly, we may conclude that the newness of reciprocity lies in its use by the Democratic party rather than by our government.

The employment of the unconditional form of the most-favored-nation clause in commercial relations, similarly, is not a Democratic innovation. It was President Harding, who, acting on the advice of Secretary of State Hughes, changed what had been our traditional policy, namely, the conditional form. The distinction between the two forms may be expressed in this way. Suppose, for example, that prior to Mr. Harding's administration, the United States and Brazil had entered an agreement pledging the most-favored-nation treatment. It would have meant that, in return for a specific concession given us by Brazil, we were giving to Brazil specific concessions not available to any other country unless in exchange for a similar concession. That this form was awkward and that it was responsible for international animosities had become quite apparent during the years, so it is not surprising that of the 625 most-favored-nation

clauses in treaties and agreements on January 1, 1933, the world over, only 48 (8 per cent) were phrased in the conditional form.[5] Since the Harding administration, however, an agreement between the United States and Brazil promising most-favored-nation treatment would mean that any subsequent agreements by either nation giving another nation better or more generous treatment (a lower tariff rate, for example) would automatically accrue to the benefit of the other nation which would not have to make any specific or similar concession. Accordingly, if Brazil were to grant a better treatment to Argentina, that treatment would at the same time be extended to the United States without a *quid pro quo*.

When our Reciprocal Program went into effect there were already forty-seven agreements to which the United States was a party pledging the unconditional form. Since it is questionable whether the program could have been entered had we been adhering to our older principle, the Republicans may again be "credited" with contributing to the New Deal tariff. At first glance, under the newer form, we seem to be giving away much in the way of concessions to many countries, but we seem to be getting a benefit only in the case of the original country with which we bargained. Yet, more careful analysis reveals that the original country in each case is our principal supplier of that product, hence the concessions we get are always the greatest possible. No particular harm results, accordingly, in generalizing the concession since no other country is supplying us with any great amount of the commodity in question. On the other hand, we benefit whenever other countries grant concessions to each other. For example, very shortly after we signed an agreement with Belgium, she entered one with France in which the rates were lower on certain automobiles, and then, two months later, she lowered some rates in agreements with Germany and Italy. We automatically got the benefits of these changes, again without a *quid pro quo*.

The Distinction between a Treaty and an Executive Agreement. Dr. Sayre has made clear the distinction between a treaty and an Executive agreement—a distinction that has never seemed to satisfy the opponents of the program.

A treaty . . . . must be ratified by the Senate. An Executive agreement, whether for the promotion of trade . . . . or for some other purpose, does not require ratification by the Senate. The difference between agreements and treaties, roughly, is this: An Executive agreement, whether made in the course of legislative authority or under the general power of the President to conduct international relations, must not contravene statutory law as enacted by Congress. A treaty, on the other hand, is not bound by previous enactments of Congress. A treaty is the supreme law of the land under our Constitution, just as legislation is.

[5] "Extending Reciprocal Foreign Trade Agreement," *Hearings before the Committee on Ways and Means (75th Cong., 1st sess., H.J. Res. 96)* (Washington, D.C.: U.S. Government Printing Office, 1937), p. 118.

In other words . . . . a treaty has all the effects of a piece of legislation. It may contravene prior legislation. It takes effect just as though it were a new bill passed.

An Executive agreement cannot. An Executive agreement is an agreement entered into by the President, either under his general constitutional power to conduct foreign relations of the United States or under some specific piece of legislation authorizing him to do so.[6]

The Reciprocal Trade Agreement Program in Action. How the Reciprocal Trade Agreements are made will be our concern in a later chapter on tariff-making. But here let us list the trade agreements that have been signed, together with their effective dates.

TABLE 4

TRADE AGREEMENTS SIGNED

Country	Date Signed	Date Effective
Cuba	Aug. 24, 1934	Sept. 3, 1934
Belgium	Feb. 27, 1935	May 1, 1935
Haiti	Mar. 28, 1935	June 3, 1935
Sweden	May 25, 1935	Aug. 5, 1935
Brazil	Feb. 2, 1935	Jan. 1, 1936
Canada	Nov. 15, 1935	Jan. 1, 1936
Kingdom of the Netherlands (Netherlands in Europe, Netherlands India, Surinam, and Curacao)	Dec. 20, 1935	Feb. 1, 1936
Switzerland	Jan. 9, 1936	Feb. 15, 1936
Honduras	Dec. 18, 1935	Mar. 2, 1936
Colombia	Sept. 13, 1935	May 20, 1936
Guatemala	Apr. 24, 1936	June 15, 1936
France, its colonies, dependencies, and protectorates other than Morocco	May 6, 1936	June 15, 1936
Nicaragua	Mar. 11, 1936	Oct. 1, 1936
Finland	May 18, 1936	Nov. 2, 1936
El Salvador	Feb. 19, 1937	May 31, 1937
Costa Rica	Nov. 28, 1936	Aug. 2, 1937
Czecho-Slovakia	Mar. 7, 1938	Apr. 16, 1938
Ecuador	Aug. 6, 1938	Oct. 23, 1938
United Kingdom, including Newfoundland and the British Colonial Empire	Nov. 17, 1938	Jan. 1, 1939
Canada (revision of agreement of 1936)	Nov. 17, 1938	Jan. 1, 1939
Turkey	Apr. 1, 1939	May 5, 1939
Venezuela	Nov. 6, 1939	Dec. 16, 1939
Cuba (supplementary agreement)	Dec. 18, 1939	Dec. 23, 1939
Canada (supplementary agreement)*	Dec. 30, 1939	Jan. 1, 1940
Argentina	Oct. 14, 1939	Nov. 15, 1941
Cuba (supplementary agreement)	Dec. 23, 1941	Jan. 5, 1942
Peru	May 7, 1942	July 29, 1942
Uruguay	July 21, 1942	Jan. 1, 1943
Mexico	Dec. 23, 1942	Jan. 30, 1943
Iran	Apr. 8, 1943	June 28, 1944
Iceland	Aug. 27, 1943	Nov. 19, 1943
Paraguay	Sept. 12, 1946	Apr. 9, 1947
* Replaced by supplementary agreement signed	Dec. 13, 1940	Dec. 20, 1940

[6] *Ibid.*, pp. 206–7.

The concessions were not applicable to Germany after October 15, 1935, because that country was held to be discriminating against our commerce, and they became inapplicable to Austria beginning May 6, 1938, and to Czechoslovakia after April 22, 1939. They were also denied to Australia between August 1, 1936, and February 1, 1938, on grounds of discrimination. On February 8, 1938, the President by proclamation, directed that the reciprocal tariff concessions to Nicaragua would be terminated although the other provisions of the agreement would remain in force. This grew out of the friendly realization that the difficult financial conditions facing Nicaragua made this step advisable. Nicaraguan concessions to the United States had covered proprietary and patent medicines; paints, varnishes, etc.; lard; dried and preserved fruits; condensed and evaporated milk and cream; preserved (not pickled) vegetables of all kinds; and rubber heels. Nicaragua, however, indicated her interest in renewing these concessions or replacing them with new ones when conditions would warrant.

The Republican Platform of 1936. The Republican platform in 1936 made a number of general charges against the New Deal legislation which can be interpreted as part of the Republican attitude toward the Reciprocal Trade Agreements as well. The Democrats were accused of having dishonored American traditions, having permitted the President to usurp the powers of Congress and having passed laws contrary to the Constitution. The platform charges that the New Deal administration

> secretly has made tariff agreements with our foreign competitors, flooding our markets with foreign commodities.
>
> Nearly 60 per cent of all imports into the United States are now free of duty. The other 40 per cent of imports compete directly with the product of our industry. We would keep on the free list all products not grown or produced in the United States in commercial quantities. As to all commodities that commercially compete with our farms, our forests, our mines, our fisheries, our oil wells, our labor and our industries, sufficient protection should be maintained at all times to defend the American farmer and the American wage earner from the destructive competition emanating from the subsidies of foreign governments and the imports from low wage and depreciated currency countries.
>
> We will repeal the present reciprocal trade agreement law. It is futile and dangerous. Its effects on agriculture and industry have been destructive. Its continuation would work to the detriment of the wage earner and the farmer.
>
> We will restore the principle of the flexible tariff in order to meet changing economic conditions here and abroad and broaden by careful definition the powers of the Tariff Commission in order to extend this policy along nonpartisan lines.
>
> We will adjust tariffs with a view to promoting international trade, the

stabilization of currencies, and the attainment of a proper balance between agriculture and industry.

We condemn the secret negotiation of reciprocal trade treaties without public hearing or legislative approval.

The Democratic Platform of 1936. The Democratic platform of 1936 reflected a confidence in the achievements of the Reciprocal Trade program:

We shall continue to foster the increase in our foreign trade which has been achieved by this administration; to seek by mutual agreement the lowering of those tariff barriers, quotas and embargoes which have been raised against our exports of agricultural and industrial products; but continue as in the past to give adequate protection to our farmers and manufacturers against unfair competition or the dumping on our shores of commodities and goods produced abroad by cheap labor or subsidized by foreign governments.

The issue in this election is plain. The American people are called upon to choose between a Republican administration that has and would again regiment them in the service of privileged groups and a Democratic administration dedicated to the establishment of equal economic opportunity for all our people.

The Act Extended to June 12, 1943. Early in January, 1940, Secretary of State Cordell Hull appeared before the Ways and Means Committee (of which he had been a member for eighteen years) to urge an extension of the Reciprocal Trade Agreement Act which was to expire on June 12, 1940. He was followed by Secretary of Agriculture Wallace who indicated his disapproval of the Hawley-Smoot Tariff by referring to it as the "Hoot-Smawley Act." The Ways and Means Committee (fifteen Democrats and ten Republicans) voted favorably on the bill, and it passed the House (216 to 168).

The *New York Times* offers this interesting description of the House debate:

In the House of Representatives last week few members graced the black-leather benches. The galleries also were nearly empty. On the floor, debate that had once been expected to produce real fireworks had fizzled out. The subject was a resolution for extension of the New Deal's program for reciprocal trade agreements. . . .

Members took the floor to speak for the record words that might please their constituents. On both sides history was cited. Democrats recalled that President William McKinley, a Republican, had spoken for reciprocal trade in the last speech before his 1901 assassination. Republicans brought in the name of James G. Blaine, their former leader, who as Secretary of State had favored reciprocal trade, but on a formal treaty basis. Grover Cleveland, Chester A. Arthur and others were brought into the speeches.

Particular industries were singled out as Exhibit A. To those in the gallery it seemed that the silver-fox industry was of special concern. Representative Edwin A. Hall, a New York Republican, took silver foxes as the theme for his maiden speech. Poetry entered the debate, when a speaker quoted, to illustrate the damage of low tariffs, this jingle current in the days of Woodrow Wilson:

Mary had a little lamb,
She loved it every minute;
But Wilson took the tariff off
And then she had to skin it.[7]

In the Senate, however, a great deal of opposition was met principally from the Republicans. The familiar charge was repeated that these agreements were really treaties and should, therefore, be submitted to the Senate for ratification, but a concrete proposal to this effect by Senator Key Pittman was defeated on March 28 by the narrow vote of 44 to 41 after it became absolutely clear that the President would veto any bill containing such a proviso. Senator O'Mahoney's (Wyoming) compromise amendment met a similar fate. He wanted, in effect, to regard each agreement as a separate tariff bill, allowing it to start in the House as a revenue measure and then to go to the Senate as a sort of treaty but to require a majority of votes in both houses instead of the constitutional two-thirds vote in the Senate. Senator Brown wanted the agreements to be worked out in the regular way which would allow them to go into effect sixty days after being proclaimed, provided Congress did not disapprove by joint resolution. Senator Walsh sought to limit the extension of the act to one year. Senator McCarran tried to have an amendment passed prohibiting American negotiators from offering concessions or bindings at the existing rates on oil, copper, lumber, and coal. All in all, about twenty-five amendments in the Senate failed to prevent the passage of the bill. On April 5, by a vote of 42 to 37 the Senate added three years to the power to negotiate the agreements.

Public interest was high during the discussion on the Reciprocal Trade Agreement extension, although the survey of the American Institute of Public Opinion (the Gallup poll) indicated that in general only one person in ten of those interviewed really knew what the principles were that underlay the program. Of the people who could be considered informed, 71 per cent were favorable to the agreements, while 29 per cent disapproved; 57 per cent favored renewal, while 43 per cent believed they should not be renewed. "The survey found no substantial difference in the attitudes of Republicans and Democrats on the question."[8]

A more positive endorsement came in the form of a manifesto signed

[7] February 25, 1940.

[8] Gallup Poll, as reported in the *New York Times*, February 4, 1940.

by 600 prominent persons—economists, educators, farmers, industrialists, labor leaders, and clergymen—who banded together under the name, the "American Union for Concerted Peace Efforts." The statement reads:

> The people of the United States deplore the current wars and look anxiously for their termination. How can they help to remove the causes of war and help build permanent peace, so that these terrible calamities will not keep recurring?
>
> We, the undersigned, believe there is at hand at least one practical way in which the United States can contribute to the removal of the economic causes of war and can keep open the channels of international trade against the day when the war will be over and the gigantic problems of economic reconstruction will be before us.
>
> That way lies through continuance of the Reciprocal Trade Agreements program.
>
> Amid all the international economic insanity of the past years, the Trade Agreements have marked one sane effort to keep open that flow of international trade so essential to peace. They have been a rallying point for all those who realize that economic disarmament and political disarmament are two aspects of the same problem. For the United States now to repudiate the outstanding effort it has made in the direction of peaceful and orderly economic relations would be one more victory for the dark forces of violence and greed.
>
> Even more important today is the fact that the longer the war lasts the greater will be the economic exhaustion of the participants, the greater will be the need of sound economic foundations upon which to build a new world of law and order. To continue the Trade Agreements program will improve the chances for a peace that will not carry with it the seeds of fresh trade rivalries and antagonisms. The choice before us, is whether we shall turn back to the old exclusiveness of economic nationalism or shall lead in showing the way to that economic freedom, without which political freedom is impossible.[9]

Opposition of the American Tariff League. A general idea of the opposition to the Reciprocal Trade Agreement Act by the proponents of the old tariff may be gathered from an address in 1940 by Mr. William L. Monro before the fifty-fifth annual membership meeting of the American Tariff League[10] of which he was the President. The charges made were that the act had failed to achieve its end; that it was an emergency measure yet had been in effect six years and was seeking another renewal; that it had not benefitted materially our exports; that it had not proved an instrumentality for peace; that it had given us the lowest tariff since 1913; that its worst effects would appear when peace was restored in Europe and the East; that it had not been applied vigor-

[9] *The Pittsburgh Press*, March 31, 1940.

[10] Delivered in New York City, January 18, 1940, and published as a reprint by the League, 19 West 44th Street, New York.

ously against countries discriminating against our trade; and that the policy had been inconsistent with our domestic program.

As an alternative, Mr. Monro proposed that "our tariff structure should be so determined as to guarantee to American industry and agriculture a condition which should insure that competitive foreign merchandise is not offered in the American market at prices which cannot be met by the domestic producers;" that a degree of flexibility should be insured to take care of changing conditions; that equality of treatment should be insured and discrimination dealt with; that the tariff should be adjusted "solely on the basis of domestic economic considerations" and "should not be controlled by international political considerations"; and that Congress should prescribe the minimum rates but should delegate to a non-partisan agency "certain specific and carefully defined administrative duties" for the sake of prompt action.

Some of the Concessions Made during 1934–40. An analysis of the agreements entered into by the United States and Canada, the United States and Brazil, the United States and the United Kingdom, the United States and Turkey will afford some idea of the nature of the bargaining—a process to which President Roosevelt, wittily gave the name "Yankee trading."

Tariff Relationships of the United States and Canada: 1913–35. We have already referred to Canada's reaction to the Hawley-Smoot Tariff of 1930, but a somewhat more detailed analysis of the relationship between the two countries will be helpful in understanding the significance of the Reciprocal Trade Agreements made in 1936 and 1939.

In 1913, a number of products of major importance to Canada were admitted free into the United States. These included agricultural, dairy, lumber, and fish products. This situation was changed by our emergency tariff of 1921 and the tariff of 1922. These acts not only placed these products on the dutiable list but raised the rates on a number of others. The climax was reached, however, in the act of 1930 which raised existing rates and made dutiable hides, leather, and softwood lumber which were hitherto free.

Canada's reaction asserted itself in a series of laws up to 1935. For example, in May, 1930, just before the Hawley-Smoot Tariff went into effect, a tariff revision was undertaken in which rates were increased on 30 items and reduced on 50 others and in which Great Britain and the British countries were given a preferential rate on about 300 items, of which almost half, previously dutiable, were placed on the free list. This placed the United States in a very weak position as compared to Great Britain and her colonies. Again, in September of the same year, increases on 100 rates were ordered on the general tariff, while British preference was increased on more than 60 items.

In June, 1931, Canada announced another revision. This time the rates on the general tariff were increased on 76 items and decreased in 29 instances, while the preferential rates were increased in only 19 cases and decreased for 33 others.

The results of the Ottawa Conference were reflected in the revision of October, 1932, when British preferential rates were lowered on 130 items—half of the reductions consisting of placing commodities, hitherto dutiable, on the free list when imported from British countries. This left the general rates against non-British countries higher than ever before; but, since Canada had entered agreements promising the most-favored-nation treatment with a number of nations, it meant that they enjoyed an intermediate set of rates while we were the only major country subject to the full general tariff. In some instances we were compelled to face a rate even in excess of the general rate because of the arbitrary valuations employed by Canada between 1929 and 1935 in the guise of antidumping duties.

This, then, was the unpleasant relationship between two neighboring countries—Canada, which purchased more from the United States than from any other country, and the United States, which except for two years (the fiscal year 1925–26 and the calendar year 1933) purchased more from Canada.[11] Surely, the time for some sort of bargaining had arrived.

The First Trade Agreement with Canada: 1936. The first trade agreement with Canada was signed on November 15, 1935, and went into effect January 1, 1936. This country made reductions—subject to certain quotas, etc.,—on cattle, fowls, cream, cheddar cheese, fish, harness and saddlery leather, sperm oil, cereals, hay, potatoes, apples, strawberries, cherries, blueberries, maple sugar, whiskey, alfalfa and other forage crop seeds, lumber, ice hockey sticks of wood, pulpboard, limestone, lime, crude feldspar, fire brick, talc, ferromanganese, vinyl acetate, acetic acid, cobalt oxide, acetylene black, pipe organs, and ice skates. It is interesting to note that among the concessions are to be found all of the items which caused the Hawley-Smoot Tariff to be so offensive to the Canadians. Our agreement also bound us against increased duties on certain by-product animal feeds. We agreed to bind on the free list certain agricultural implements, asbestos, certain chemical substances, nickel ore, certain undressed furs, sea-foods, and wood pulp.

Canada, in turn, gave to us a tariff treatment no less favorable than that accorded any other non-British country. Lower rates resulted on cured pork, classes of paper and printed material, manufactures of pyroxylin

[11] This account is based on the *Second Trade Agreement between the United States and Canada*, United States Tariff Commission (Washington, D.C.: U.S. Government Printing Office, 1938), Vol. I, pp. 2 ff.

plastics, certain paint materials, some petroleum products, glass, manufactures of zinc, brass, copper, iron and steel, some machinery, non-mechanical refrigeration, wireless and radio apparatus, automobiles, aircraft, scientific instruments, cameras, boots and shoes, rubber products, jewelry, and textiles—to mention only the more important. Canada bound cotton on the free list as well as lemons, corn, hides, tractors, and so on. She also removed the arbitrary valuations hitherto applied to our exports of fruits and vegetables.[12]

The Second Trade Agreement with Canada: 1939. A more extensive agreement between the countries was signed November 17, 1938, and went into effect on January 1, 1939. Some of the 1936 rates were reduced further, some remained the same, and some others not previously lowered were lowered in the second agreement. The rates on apricots, quinces, cherries, cranberries, grapes, muskmelons, peaches, pears, plums, prunes, raspberries, loganberries, strawberries, dried apples and other dried fruits, canned apricots, pears, and pineapples, and a score of fresh vegetables were lowered. In this way the ad valorem rates of 30 per cent on the latter in 1935 had been reduced to 15 per cent under the first agreement and to 10 per cent under the present agreement. Other products now enjoying lower rates include the cereals, fruit juices, molasses, vegetable oils, rubber products, cigarettes, meat and livestock, animal by-products, textile products, manufactures of wood, metal manufactures and hardware, and business machines. The United States likewise continued the 1936 concessions and made additional ones on milk, swine, various fish, horses, leather products, barley and other cereals, straw, vegetables, cider, wood products, cement, iron and steel products, and chemicals.

The United States–Brazilian Trade Agreement. The trade agreement with Brazil was signed on February 2, 1935, and went into effect on January 1, 1936. Concessions were made by the United States on 19 items, involving 16 products. Of the 19, 7 represented reductions and 12 were assurances that the items on the free list would remain free during the life of the agreement. The items bound on the free list were crude ipecac (used in medicine), crude maté (a tea-like leaf used in beverages), cocoa beans, coffee, balata (used for covering golf balls, in driving belts, medical tape, etc.), zerconium ores (use as an oxide in bricks and vitreous enamel and as a metal in flashlight powders and ammunition primers), babassu nuts and babassu nut oil (for edible purposes and soap manufacture), raw deerskins, carnauba wax (obtained from a variety of palm and used in polishes and candles), crude beeswax, and cabinet woods in the log (satinwood, rosewood, lignum-vitae, mahogany, Spanish cedar). In all cases except two, these items had been on the free list of the acts

[12] *Ibid.*, pp. 31–43, 234–42.

of 1913, 1922, and 1930. The two exceptions were babassu nuts which were assessed 20 cents a bushel in 1913 and some cabinet woods assessed 10 per cent in 1922. Seventeen of the 19 are not produced in the United States, while a negligible amount of deerskin and some beeswax are produced domestically. It may also be added that 17 of the items are not in competition with domestic products, while beeswax faces competition and deerskin, while competing indirectly with bovine skins, sells at a higher price.

The United States granted concessions to Brazil on maté and ipecac when advanced in value, and copaiba balsam—the reduction in each case being from 10 per cent to 5 per cent. The rate on manganese ore was reduced from 1 cent a pound to ½ cent a pound. That on Brazil nuts, not shelled, was changed from 1½ cents to ¾ cents a pound, and on shelled from 4½ cents a pound to 2¼ cents. The only other concession was made on castor beans. A rate of ½ cent a pound was cut to ¼ cent a pound. The commodities listed here are either not competitive (maté, ipecac, balsam, Brazil nuts, and castor beans) or are needed to supplement domestic production as in the case of manganese ores.

Brazil granted the United States concessions on hides and skins; milk, fish, fruits, preserved fruits, oatmeal and other cereals, vegetables; turpentine; cotton oilcloth; cotton shirts; certain cements; furniture and furnishings of iron and steel; bar and flake soaps; various paints and varnishes; receiving and transmitting apparatus for telephones, telegraphs and radios, victrolas, moving picture films, electric batteries, radio tubes; surgical dressings; automobiles, trucks, busses, ambulances, motorcycles, automotive parts and accessories including tires; scales, pumps, electrical refrigerators, agricultural machinery, steel files, all sorts of machines; chewing gum; and linoleum, and congoleum.[13]

The Trade Agreement with the United Kingdom. This agreement was signed on November 17, 1938, and became effective on January 1, 1939. It covers not only the United States and the United Kingdom—the largest trading nations—but also the thirty-seven British colonies and Newfoundland, and Hawaii, Alaska, and Puerto Rico. The United States reduced 446 duties and bound 44 at the existing rate and 65 more on the free list in favor of the United Kingdom. In addition, 17 rates were reduced, 3 were bound against increase, and 40 were bound on the free list in behalf of the British colonies. There were also 5 reductions and 1 item bound on the free list in the interest of Newfoundland. There were 16 reductions ranging from 1 to 10 per cent; 79 from 11 to 20 per cent;

[13] This account is based on the United States Tariff Commission's *Digest of Trade with Respect to Products on Which Concessions Were Granted by the United States —Brazilian Trade Agreement* (Washington, D.C.: U.S. Government Printing Office, 1935).

105 from 21 to 30 per cent; 124 from 31 to 40 per cent; and 144 from 41 to 50 per cent. In return, Great Britain granted us reductions on 62 agricultural products and 174 nonagricultural products and bound 239 rates on agricultural and 679 rates on nonagricultural products.

The more important items on which we granted concessions to the United Kingdom as a principal supplier were those on cotton, wool, and linen textiles; leather and manufactures; metal manufactures; and ceramics. We also reduced rates on precipitated chalk, cresols, palm-kernel oil, students' and artists' colors, synthetic iron-oxide and iron-hydroxide pigments, high-grade toilet soap, saddle soap, china clay, high-grade spectacle and photographic lenses, metallic pens, certain types of machinery, furniture other than chairs, tennis racket frames, molasses, some candies, cigarettes, fishery products, biscuits and cakes, canned pineapples, jellies, jams, marmalades, whiskey, several types of fruit juices, yarns of finer counts, higher-priced cloths, belting, flax and linen, woolen and worsted fabrics and garments, high-priced silk products, carbon paper, high-priced leather products.

The United Kingdom, in turn, granted concessions on agricultural products. Grapefruit and orange juice formerly subject to 15 per cent ad valorem were placed on the free list as were lard and wheat. Reductions were made on rice, oats, all sorts of fruit, and canned goods. Rates were bound against increase on dried fruits, cornstarch, oleomargarine, etc. Those bound on the free list included corn, hams, pork, raw cotton, and linters.

In the field of nonagricultural products, rates were reduced on typewriters, silk stockings and socks, paper clips, women's handbags, doors, amplifiers, pipe organs, victrola records, tooth paste and powder, toilet cream and cosmetics, golf clubs, hardwood flooring, printers' ink, rubber tubing, oil cloth, women's footwear, saws, oysters, fishing rods, bolts, screws and nuts, furnitures, files, electrical mixers and cooking apparatus, various business machines, soap, salmon, and patent leather.

Rates were bound on such items as motorcars, corsets, artificial teeth, dental supplies, agricultural machinery, paraffin wax, and rubber products. Items bound on the free list included various furs, sulphur, cotton waste, and resin.[14]

The Agreement with the Republic of Turkey. This agreement, the twenty-first, was signed on April 1, 1939, and went into effect May 5, 1939. Turkish concessions to the United States numbered 44 items which accounted for 44 per cent of the total imports from the United States in 1937. Twenty of these items were reduced more than 50 per cent, 2 from 25 to 50 per cent, and 22 were reduced less than 25 per cent below existing rates.

[14] U.S. Tariff Commission, *Trade Agreement between the United States and the United Kingdom* (Washington, D.C.: U.S. Government Printing Office, 1938), Vol. I.

Reductions from the Turkish tariff rates were given to the following American exports: motor vehicles and parts, electric refrigerators, radios and parts, typewriters and ribbons, other business machines, sewing machines, iron and steel sheets galvanized with zinc, filing cabinets, asbestos brake lining, hides, dried and canned prunes, canned asparagus, rubber thread, plastic construction material, liquid waterproofing preparations, insecticides, tooth pastes, and lubricating oil. These concessions were generalized to all countries enjoying the most-favored-nation treatment from Turkey, and we generalized the concessions given Turkey to all countries except Germany. Hence, it may be seen how our tariff policy has a profound influence on rates of other countries.

We reduced the rates on twelve items, bound one duty, and bound eight on the free list. Our concessions included lowered rates on cigarette leaf tobacco, figs, seedless raisins, shelled filberts, hand-made oriental rugs, pistachio nuts, canary seed, valonia extract, licorice extract, cymbals, and crude meerschaum. We bound the rates on poppy seed and bound on the free list crude licorice root and valonia, sheep, lamb and goat casings, hare and marten skins, chrome ore, emery ore, and crude borax.[15]

The Republican Platform of 1940. The plank of the Republican party in the campaign of 1940 undertook to distinguish between genuine reciprocity and so-called reciprocal trade agreements:

> We believe in tariff protection for agriculture, labor and industry, as essential to our American standard of living. The measure of the protection shall be determined by scientific methods with due regard to the interests of the consumer.
>
> We shall explore every possibility of reopening the channels of international trade through negotiations so conducted as to produce genuine reciprocity and expand our exports.
>
> We condemn the manner in which the so-called reciprocal trade agreements of the New Deal have been put into effect without adequate hearings, with undue haste, without proper consideration of our domestic producers, and without congressional approval. These defects we shall correct.

The plank dealing with Agriculture also commented on the tariff:

> We advocate a foreign trade policy which will end one-man tariff making, afford effective protection to farm products, regain our export markets, and assure an American price level for the domestically consumed portion of our export crops.
>
> . . . .
>
> We are threatened by unfair competition in world markets and by the invasion of our home markets, especially by the products of state-controlled foreign economies.

[15] U.S. Tariff Commission, *Trade Agreement between the United States and the Republic of Turkey* (Washington, D.C.: U.S. Government Printing Office, 1939).

The Democratic Platform of 1940. The Platform of the Democratic Party stated: "To insure that our armaments shall be implements of peace rather than war, we shall continue our traditional policies of the good neighbor; observe and advocate international respect for the rights of others and for treaty obligations; cultivate foreign trade through desirable trade agreements, and foster economic collaboration with the republics of the Western Hemisphere."

The Two Planks Compared. The convention of the Republican party adopted its platform two weeks after the Reciprocal Trade Agreement Act had been renewed for three years. In marked contrast to the platform four years earlier in which the party pledged to "repeal the present reciprocal trade law agreement" because it was futile and dangerous, destructive and detrimental and to replace it with the principle of the flexible tariff. The 1940 platform endorsed "genuine reciprocity." Just how the latter form of reciprocity differs from that of the Democrats is difficult to say, but apparently the main difference would be the need for Congressional approval. The interesting thing, however, is that for the first time in our history both parties endorsed reciprocity at the same time.

Evaluation of the Reciprocal Trade Agreements. In evaluating the Reciprocal Trade Program there are a great many factors to keep in mind. The years 1934–40 have been years unprecedented in international relations. They followed and were in a sense a part of the world-wide depression during which extreme nationalism and mercantilism were resorted to as weapons. Once again, the nations of Europe were emphasizing treasure and goods, balance of bargain and balance of trade, self-sufficiency, and colonies. Once again, mercantilistic encouragements to population increase became the order of the day. Once again, commerce became the special concern of government, and international trade in some instances (Russia, Germany, Italy, etc.) ceased to be a trade by individuals within different nations and became more or less a government monopoly and a means of getting certain imports and building up gold and foreign exchange supplies. Even the countries which did not become totalitarian redoubled their efforts to control their foreign exchange through stabilization funds, official exchange markets, quotas on imports, licenses, milling and mixing restrictions, and higher tariffs. Bounties and other encouragements to domestic industry and agriculture once more became the tools of international policy.

Seemingly, a world which during the years 1925–29 was on its way back to a postwar normal became unanchored and more badly unbalanced than ever before. The weakness and ultimate coma of the League of Nations, the disappearance of a number of European nations through Nazi, Soviet, Italian, and Japanese domination and control (Austria, Czechoslovakia, Belgium, Holland, France, Norway, Poland, Estonia, Latvia, Lithuania,

and Ethiopia), and Japan's undeclared war in China merely represent a climax to factors at work during this period.

The Reciprocal Trade Agreements, first having seen light of day in such a period and coming as emergency legislation, cannot be judged solely by quantitative results. They must also be considered in the light of what might have happened if such a program had not been undertaken and if, instead, we had relied on the Hawley-Smoot Tariff and had made vigorous and frequent use of the flexible provisions to fight discrimination. Judging from the temper of the world, conditions would have become even more critical than they are now and would certainly have been worse from 1934 to the outbreak of the Second World War than they were.

The program was successful up to 1939 because it proposed a type of tariff that the other nations of the world had long been using and understood well. It was successful because it put into practice the only way possible to fulfill the world's need for a movement toward lower trade barriers. International conferences having failed to accomplish this, it was logical for the great trading nation of the world to start the movement. Every concession we gave helped to reduce not only our own barriers but the barriers of some other nation. And then, by generalizing the lower rates except to the two countries discriminating against us (Germany since October 15, 1935, and Australia between August 1, 1936, and February 1, 1938), we influenced the commerce of the world. We also influenced the making of scores of agreements by other nations along lines of a freer commerce. In a very true sense, then, we were trying to offset the movement toward more restrictions in which our Hawley-Smoot Tariff had certainly played a leading part.

The Success of the Program Viewed Quantitatively. It is not difficult to adduce figures showing that an improvement in our trade position resulted after the program went into effect in 1934, but it is impossible to say how much of this was due to an improvement of business conditions, how much was due to changes in the value of money through devaluation and rising prices, and how much was due to the Reciprocal Trade Agreement Act itself. The same figures will mean one thing to the proponents and quite a different thing to the opponents. In addition, a certain amount of time must be allowed before judging the success or failure of the system. After all, new trade relationships cannot be established in a day, while old ones are not abandoned easily simply because a new and favorable market is opened suddenly.

Dr. Sayre offered a number of illustrations to the Committee on Ways and Means in January, 1937, to show the success of the agreements up to that date. At this time, the Cuban agreement had been in effect for two years and four months, the Belgian agreement one year and eight months, that with Haiti one year and seven months, that with Sweden one year

and five months. The first agreement with Canada and that with Brazil were just a year old. Those with the Netherlands, Switzerland, Honduras, Colombia, Guatemala, France, and Nicaragua had all been in force less than one year. Other agreements had not yet gone into effect.

Our exports to Cuba of white potatoes, onions, and dried beans during the first full year of the agreement amounted to $1,170,000 as compared to the previous year's $468,000. Exports of certain canned vegetables increased 47 per cent, while the export of ham and shoulders, bacon, and lard more than doubled during the first year. The value of exported passenger automobiles increased from $533,000 during the last preagreement year to $1,662,000 during the first agreement year and to $2,017,000 during the second; that of office machinery in the second year amounted to $226,000 as compared to $59,000 for the last preagreement year. The export of radios and radio equipment increased from $402,000 in the preagreement year to $989,999 in the second agreement year. The value of wheat flour during the second year of the agreement came to $5,000,000 as compared to $3,600,000 for the year before the agreement was entered.

During the first year of the Belgian agreement we exported automobile parts and unassembled automobiles to the amount of $6,600,000. In the preagreement year, our export came to only $2,300,000. The exportation of radio tubes showed an increase from $407,000 to $467,000; that of business machines from $477,000 to $696,000. The exports of refined copper to Sweden increased from $1,500,000 before the agreement became effective to $2,600,000 in the following year.

The agreement with the Netherlands also led to an increase of our exports. The value of wheat exported rose from $693,000 for the six-month period before the agreement to $1,060,000 for the corresponding period under the agreement. The increase in wheat flour was from $618,000 to $786,000 for the same period. Our refined copper exports increased 17 per cent over the corresponding six-month period.

Our relations with Canada showed marked improvement, too. Our export of fruits and prepared fruits during the first six months of the agreement amounted to $5,538,000—an increase of $824,000 over the corresponding period before the agreement. The exports of pork during six months showed a threefold increase; that of lard an increase of 70 per cent; that of grain and grain products amounted to $168,000 over the previous period; and that of automobiles (number as well as value) more than doubled. This is of interest since the increase of this last export to all other countries was only 8 per cent. Canadians increased their purchase of our agricultural machinery by 67 per cent during the first six months of the agreement—from $3,300,000 to $5,500,000. Our electrical apparatus and machinery exports also increased from $3,400,000 to $4,500,000—about 32 per cent. During the first six months of the agreement, Canada purchased

radio apparatus and tubes from the United States amounting to $1,044,000. For a similar period before the agreement became effective, the figure was $629,000. Her purchase of office machinery also showed an increase in a six months' period from $592,000 to $802,000. Our export of tractors to Brazil increased 64 per cent over the same six-month period before the agreement. Dr. Sayre also points out that, while our export of electrical refrigerators to all countries increased 49 per cent, those sent to Canada, the Netherlands, and Cuba increased 186, 84, and 92 per cent respectively.[16]

A Later Evaluation. In picturing the later accomplishments of the Reciprocal Trade Agreement Program, it is necessary once again to be wary of attributing all improvement to this one factor. It is also important to realize the impetus which war gives to the exports of a neutral nation. At the same time, we must remember that we had not entered any of these trade agreements with Germany, Russia, Italy, or Japan—the aggressor nations. Of the countries with whom we had agreements, Belgium, the Netherlands, France, Finland, and Czechoslovakia were out of the running because of war, dismemberment, or absorption. Of the other countries in agreement with us, the United Kingdom and Canada were at war, hence their imports from us and exports to us were flavored by war needs. Again, our neutrality policy proved a barrier to the growth of trade.

In January, 1940, the experts of the Bureau of Foreign and Domestic Commerce, commenting on the effect of the war on the first eleven months of 1939 stated:

> . . . . the available data indicate that there has been a tendency to exaggerate the importance of the contribution that shipments of war materials and supplies which constitute an element in preparation for war, have been making to our total trade. Even when the fullest allowance is made because of this abnormal factor the extent to which the increase in exports to agreement countries exceeds the increase in exports to nonagreement countries is still impressive, and, while all of the difference between the two groups cannot, of course, be credited to the concessions obtained through trade agreements, the continuance without variation over a period of years of a showing decidedly favorable to the trade-agreement countries indicates that the benefits yielded by the concessions have been substantial.[17]

They pointed out, moreover, that for those eleven months there had been increases in the exports of what might be considered war goods—aircraft, machine tools, metals and scrap, aluminum semimanufactures, while there had been a decrease in the export of petroleum products, cot-

[16] Hearings before the Committee on Ways and Means, *Extending Reciprocal Foreign Trade Agreement* (Washington, D.C.: U.S. Government Printing Office), pp. 107–9.

[17] *Commerce Reports*, January 20, 1940, pp. 61–62.

ton, wheat, and corn. The exports were not confined to agreement or nonagreement countries. The exports of the last month of the year, however, proved to be the largest since March, 1930, and decided increases for the year 1939 over 1938 appeared in aircraft, machine tools, metals and scrap, aluminum, lubricating oils, and raw cotton. Corn, passenger cars, and motor trucks alone showed a decline. The increase being particularly marked in the exports to agreement countries, the record for the year 1939 showed an increase of 8.1 per cent over 1938, while nonagreement countries showed a decrease of 4.5 per cent. In the case of imports, those coming from trade-agreement countries increased 20.1 per cent and from

TABLE 5

UNITED STATES TRADE WITH TRADE-AGREEMENT COUNTRIES AND WITH ALL OTHER COUNTRIES, 1938–39 COMPARED WITH 1934–35*
(Values in Millions of Dollars)

ITEMS	AVERAGE VALUE		CHANGE	
	1934–35	1938–39	Value	Per Cent
Exports, including re-exports:				
Total, trade-agreement countries .	757†	1232†	+475	+62.8
Total, nonagreement countries	992	1306	+314	+31.7
Total, all countries . . .	2208	3136	+928	+42.0
General imports:				
Total, trade-agreement countries. . .	774†	942†	+168	+21.6
Total, nonagreement countries. . .	772‡	868‡	+97	+12.5
Total, all countries .	1851	2139	+288	+15.6

* Adapted from *Commerce Reports*, February 17, 1940, p 169.
† These figures do not include Ecuador, the United Kingdom, Newfoundland, and nonselfgoverning British colonies, Turkey, and Venezuela since the period during which the agreements have been in force is too short to justify inclusion for purposes of comparison
‡ The apparent discrepancy shown by these figures in comparison with the other totals is due to the noninclusion of trade with Ecuador and the United Kingdom and its Crown colonies.

nonagreement countries 15.6 per cent, but it must be remarked that imports for 1938 were exceptionally low,[18] hence the increase is not as significant as it appears.

Table 5 shows the United States trade with eighteen trade-agreement countries and with all other countries in the form of averages for the years 1938–39 compared with 1934–35. The figures for Turkey and Venezuela are not included because the agreement with the former had been in effect during only a part of 1939 while that with the latter did not go into effect until December 16 of that year.

The outstanding fact shown by this table is that, while United States exports have increased since the beginning of the Reciprocal Trade Program to both agreement and nonagreement countries, the percentage in-

[18] *Ibid.*, p. 61; also issue of February 17, 1940, p. 170.

crease to the eighteen countries is much greater than the total increase to all the nonagreement countries and that, while the imports have increased from both groups, those from the agreement countries have increased faster than from the nonagreement countries. But while the total increase in imports amounts to $288,000,000, our exports have increased by $928,000,000. It would appear, accordingly, that, out of the maze of conflicting opinions and multiple factors surrounding trade, the Reciprocal Agreements have played some part in improving trade relationships.

Lest an impression be created that everyone was satisfied with the tariff, reference might be made to the picturesque protest of a group of cotton, dairy, and grain farmers in Decatur, Texas, in 1941. They charged that "the American farmer is economically unprotected" while there is tariff protection for everyone else. To call attention to the fact that, unless something is done, the farmer would "go around plumb naked," some five hundred of them threatened to go about in that way. Their wives and a constable, however, reminded them that, "This is a self-respecting town and there ain't gonna be any rowdy incidents." As a compromise, short pants and short shirts were suggested.

Renewal in 1943. The Reciprocal Trade Agreement Act was to expire on June 30, 1943. Administration leaders, fearing the effect on diplomatic relations if renewal failed, took the matter up early in the year. They were mindful of the fact that only two Republican Representatives and five Republican Senators had voted for it originally; that on renewals the Republicans had voted against it unanimously in the House on one occasion and in the Senate on another. On June 7, 1943, the act was renewed for two years to June 12, 1945. Its passage was not seriously opposed by the Republicans. Their leaders felt that no change in the tariff during the war would be helpful and that no attack on it would get very far. The renewal carried the additional authorization to suspend the agreements whenever discriminatory treatment of United States commerce results from the operation of international cartels.

Agreements Entered during the Three Years, June, 1940—June, 1943. Between June, 1940, and June, 1943, the period of the second renewal of the agreement-making authority, supplementary agreements were entered with Canada on the subject of fox furs and with Cuba. The former is interesting in that it is one of the two cases where existing rates in agreements were recognized as hardships on American industry and where quotas were placed on such commodities. Other agreements were signed with Argentina, Peru, Uruguay, Mexico, and Iran. Since some reference will be found elsewhere in this work to the other agreements, attention will be confined here to the agreement with Iran and to one feature of the Mexican agreement.

The trade agreement with Iran was signed in April, 1943.[19] Iran was the twenty-seventh country with which an agreement had been entered. The agreement was the sixth signed after the beginning of the war. We won concessions on 84 per cent of the merchandise exported to Iran in terms of 1939–40 figures, and we granted concessions on 95 per cent of merchandise purchased from Iran. We reduced rates on Oriental rugs, opium, cashmere goat hair, copper ware, dried barberries, apricot and peach kernels, block-printed cotton articles, cut turquoises, and cigar and cigarette boxes. We bound against increase for the life of the agreement dates, pistachio nuts, and sturgeon caviar. We bound on the free list crude asafetida, crude bristles, quince seed, saffron, badger and jackal furs, gums, iron ore for pigments, and antique rugs. We received concessions on automobiles, radios, canned asparagus and fruits, films, lubricating oil and grease, and agricultural machinery.

In the Mexican agreement, Article XI, an escape clause was inserted which is to become a part of all new agreements. It reads in part:

1. If, as a result of unforeseen developments and of the concession granted on any article enumerated . . . . such article is being imported in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers of like or similar articles, the Government of either country shall be free to withdraw the concession, in whole or in part, or to modify it to the extent and for such time as may be necessary to prevent such injury. . . .
2. Before the government of either country shall withdraw or modify a concession . . . . , it shall give notice in writing to the government of the other country as far in advance as may be practicable and shall afford such other government an opportunity to consult with it in respect of the proposed action; and if agreement with respect thereto is not reached the government which proposes to take such action shall, nevertheless, be free to do so and the other government shall be free within 30 days after such action is taken to terminate this agreement in whole or in part on 30 days' written notice.

The Tariff Planks in 1944. The Presidential campaign began shortly after the renewal of the act. The Republican platform carried the following plank on the subject of the tariff:

We assure American farmers, live stock producers, workers and industry that we will establish and maintain a fair protective tariff on competitive products so that the standard of living of our people shall not be impaired through the importation of commodities produced abroad by labor or producers functioning upon lower standards than our own.

[19] *Executive Agreement Series 410* (Washington, D.C.: U.S. Government Printing Office, 1944). It is interesting that the agreement is printed both in English and in Persian.

If the post-war world is to be properly organized, a great extension of world trade will be necessary to repair the wastes of war and build an enduring peace. The Republican party, always remembering that its primary obligation which must be fulfilled is to our own workers, our own farmers and our own industry, pledges that it will join with others in leadership in every co-operative effort to remove unnecessary and destructive barriers to international trade. We will always bear in mind that the domestic market is America's greatest market and that tariffs which protect it against foreign competition should be modified only by reciprocal bilateral trade agreements approved by Congress.

The Democratic platform was notably brief. Altogether it was about 1,400 words in length. In its introduction it carried the statement, "We do not here detail scores of planks. We cite action." The plank dealing with international trade made no mention of any tariff or reciprocal trade agreements. It consisted of one sentence: "We shall uphold the good-neighbor policy, and extend the trade policies initiated by the present administration."

Trade Agreements Entered June, 1943—June, 1945. Just one agreement was entered during this period, although negotiations and intentions to negotiate were on the agenda. The agreement was with Iceland on August 27, 1943. Iceland's economy is based almost entirely on the fishing industry whose products have accounted for about 94 per cent of her exports. We granted concessions on ten types of fish and fish products.

The Status of Tariff Concessions on the Eve of the Renewal of the Act. By January 1, 1945, our tariff reductions had affected 1,190 rates—430 in the British agreement, 173 in the Canadian, 91 in the French, 90 in the Mexican, 74 in the Swiss, 70 in the Belgian, 54 in the Dutch, 47 in the Argentine, 41 in the Cuban as well as in the Swedish, 16 in the Iranian, 15 in the Peruvian, and 10 each in the agreements with Iceland and Turkey. A total of 62 rates were bound. Of these, 28 were found in the concessions granted to Great Britain.

We received in return over 1,400 concessions from the United Kingdom, over 1,000 from Canada, 400 from Cuba, 200 from Mexico, 200 from Colombia, and smaller amounts from the other countries.

Renewal and Amendment of the Trade Agreement Act in 1945. The bill for the renewal of the authority to enter trade agreements came up against a growing opposition. Part of this came from the increasing strength of the Republican party in Congress and part from those who felt that the status of the war made any commitment beyond one year dangerous. The most serious complaint was voiced, however, against the proposed increased authority of the Executive, namely, to reduce rates an additional 25 per cent below those in effect on January 1, 1945. Since a number of rates in force at that time were 50 per cent below those of the Hawley-Smoot Tariff in 1934, the proposed modification of the law

would have enabled a cut to be made 75 per cent below the original rates.

The proposal took the form of H. R. 3240 and provided for the life of the bargaining power to be extended to June 12, 1948. Public hearings were held over a period of weeks by the Ways and Means Committee beginning on April 18. Referring to the 3,000 pages of testimony taken, Chairman Doughton remarked, "I doubt if all the members of the Committee have had time to read in full these hearings, and, of course, few, if any of the Members of the House have or ever will read these thousands of pages of material."[20]

The committee reported the bill favorably. Fourteen Democrats had voted for it, and one Democrat and all ten Republican members voted against it. The minority report was characterized by Representative John M. Robinson of Kentucky as "a very informative and illuminating minority report." But the editorial in the *New York Times* referred to it as one which "unfortunately, lacks even the merits of clarity and internal consistency." It went on to say: "Some of the arguments in the minority report will cause a few readers to hold their heads in incredulity—for example, the expressed fear that the proposed mutual reduction of tariffs and trade barriers will cause 'the establishment of even greater and more powerful bureaucratic controls over the movement of men and goods.' "

The Bill in the House of Representatives. When the bill reached the House, an extensive debate ensued; Representative Plumley of Vermont even repeated an argument against the program which he had first used in 1938: "As a panacea for and preventive of war trade treaties work out just as efficaciously as between nations as does the idealism and good intent as between individuals when it is deemed best to cut a man's throat in order to stop his nosebleed."

Representative Jenkins of Tennessee brightened one of the sessions by quoting Chairman Doughton's own remarks made in 1930 against him—remarks which were made against a provision in the Republican tariff giving the President power to cut tariff rates under certain conditions. At that time Chairman Doughton, then a minority member of the Ways and Means Committee, said:

> The fathers who framed the Constitution wisely, in my opinion, left to the Congress the initiating and enacting of laws raising revenue. The flexible provisions giving the President authority to raise or lower tariff rates to the amount of 50% renders nugatory the spirit and practical effect of this provision of the Constitution. If this bill is enacted into law he will have the power of life and death over industry and all manufacturing enterprises and complete autocratic power affecting agriculture. My friends this is too dangerous and alarming to contemplate.

[20] *Congressional Record,* May 24, 1945, p. 5022.

Mr. Doughton obtained the floor, and the following discussion ensued:

MR. DOUGHTON of North Carolina: When I was a child I thought as a child and spake as a child; but when I reached manhood I put off childish ways and spake as a man.

MR. JENKINS: Now, Mr. Chairman, that has been only 14 years ago, and at that time the distinguished gentleman from North Carolina was 70 years old. So if he was a child when he was 70, then what can we expect from him when he is 15 years older? The chairman was brilliant then, and he shows no diminution of mental powers now, but he still shows his political acumen.

MR. REED of New York: Mr. Chairman, will the gentleman yield?

MR. JENKINS: I yield.

MR. REED of New York: Once a man, twice a child.[21]

The course of the debate was such that President Truman saw the necessity for sending a letter to Speaker Sam Rayburn in which he referred to the pending measure as of "the first order of importance for the success of my Administration." He went on to say: "I have had drawn to my attention statements to the effect that this increased authority might be used in such a way as to endanger or 'trade out' segments of American industry, American agriculture, or American labor. No such action was taken under President Roosevelt and Cordell Hull, and no such action will take place under my presidency."

The Passage of the Bill. The House passed the bill by a vote of 239 to 153. The Senate Finance Committee removed from the bill the right to cut rates by an additional 25 per cent and then recommended it to the Senate. By a vote of 47 to 33 the Senate restored the provision and passed the bill. When President Truman signed it, the Reciprocal Trade Program became the basis for our tariff until June, 1948.[22]

A Comparison of Tariff Acts since 1909. Table 6 prepared by the United States Tariff Commission affords an excellent summation of our experiences under the tariff acts in force since 1909. The Payne-Aldrich, the Fordney-McCumber, the Emergency Tariff, and the Hawley-Smoot

---

[21] *Ibid.*, May 26, 1945, p. 5225.

[22] In November, 1946, after the election of a Republican Congress, the *American Press*, a newspaper trade journal took a poll among the country editors of 1,000 weekly papers in as many counties. One question was: "Would you favor a return to the high tariff policy once practiced by the Republicans?" Of those answering, 69 per cent said, "No," and many underlined the answer or added an exclamation point. Nine per cent said "yes"; 4 per cent favored a protective tariff "but not high enough to fence America in." The other 18 per cent was undecided.

On February 23, 1947, the National Opinion Research Center, University of Denver, published the result of a poll on tariff reduction. Almost 3 out of 4 (73 per cent) of the persons interviewed favored the reduction of the United States tariff if other countries reduced their barriers against our goods at the same time.

Tariff until amended in 1934 were Republican tariffs, while the Underwood Tariff of 1913 and the Hawley-Smoot after 1934 were Democratic measures. There are several facts which become apparent. One is that we have no free trade party in this country. Another is that the differences between Republican and Democratic rates taken as a whole are not as great as popularly supposed. Still another is that both parties allow a sizable proportion of our imports to enter on the free list—the important items being mostly raw materials, of course. Finally, both types of tariffs yield a sizable revenue with the differences being in a measure attributable to business conditions and prices almost as much as they are due to differences of ad valorem rates.

Agreement with Paraguay. A reciprocal trade agreement was signed with Paraguay on September 12, 1946. The understanding includes a reciprocal assurance of general unconditional and most-favored-nation treatment in regard to duties, customs formalities, import prohibitions, and other restrictions. The agreement having been negotiated before the renewal of the Reciprocal Trade Agreement Act does not contain any of the deeper cuts permitted by the act. Rate reductions by Paraguay represented reductions ranging from 9 to 75 per cent and covered a wide variety of United States exports such as prunes, dried fruits and berries, walnuts, and seedless raisins; turpentine, varnishes, and rosin; a number of mineral, chemical, and pharmaceutical products; horseshoes, horseshoe nails, and axes; storage batteries and parts; wireless installations and their parts; dry batteries; telephones and accessories; spare wheels for passenger automobiles; refrigerators; toilet paper; dictating machines; and phonograph needles. Rates were bound against increase on cigarettes, lubricating oils and greases, cosmetics, shaving soap, toilet soap, dentifrices, typewriter ribbons, mechanical coin counters, cash registers, and calculating machines. Other bound rates covered bookkeeping machines, typewriters, passenger automobiles, trucks, and tractors.

We undertook to reduce our duty on urunday extracts for dyeing and tanning, and on urunday extract for use in the oil-producing industry; to bind against increase our present duties on processed maté, quebracho extract, guaiac wood oil and essence of guayacan, tallow, meat extract, and other products; to bind on the free list crude maté, dried blood, crude bones, quebracho wood, undressed furs and fur skins of fox (other than silver or black), otter, ocelot, wildcat, nutria, and jaguar.[23]

Concerted Trade Agreement Negotiations. On November 9, 1946, announcement was made of our intention to negotiate Reciprocal Trade Agreements with eighteen countries and the areas for which these countries have the authority to negotiate, as listed on page 280.

[23] *Foreign Commerce Weekly*, September 28, 1946.

TABLE 6

Average Ad Valorem Rates of Duty on Imports into the United States, by Years, under Specified Tariff Acts*

There are two fundamental difficulties in measuring average rates of duty under different tariff acts by the use of statistics of imports (a) The change in the character and quantity of the articles imported from year to year, and still more from decade to decade, (b) the change in the general price level and even in the prices of single major commodities Unless due regard is given to these changes, comparisons between different years may be misleading.

Fiscal Years 1910–18, Calendar Years 1919 and Succeeding Years	Imports for Consumption						Equivalent Ad Valorem Rates	
	Free	Per Cent Free	Dutiable	Per Cent Dutiable	Total	Duties Collected	Dutiable	Free and Dutiable
Payne-Aldrich law Effective Aug 6, 1909							Per-cent	Per-cent
1910	$ 761,353,000	49.2	$ 785,756,000	50.8	$1,547,109,000	$326,562,000	41.6	21.1
1911	776,964,000	50.8	750,981,000	49.2	1,527,945,000	309,966,000	41.3	20.3
1912	881,513,000	53.7	759,210,000	46.3	1,640,723,000	304,899,000	40.2	18.6
1913	986,972,000	55.9	779,717,000	44.1	1,766,689,000	312,510,000	40.1	17.7
Annual average	851,701,000	52.6	768,916,000	47.4	1,620,617,000	313,484,000	40.8	19.3
Underwood law Effective Oct 4, 1913.								
1914	1,152,393,000	60.4	754,008,000	39.6	1,906,400,000	283,719,000	37.6	14.9
1915	1,032,863,000	62.7	615,523,000	37.3	1,648,386,000	205,747,000	33.4	12.5
1916	1,495,881,000	68.6	683,153,000	31.4	2,179,035,000	209,726,000	30.7	9.6
1917	1,852,531,000	69.5	814,689,000	30.5	2,667,220,000	221,659,000	27.2	8.3
1918	2,117,555,000	73.9	747,339,000	26.1	2,864,894,000	180,590,000	24.2	6.3
1918 (July–December)	1,149,882,000	79.1	303,079,000	20.9	1,452,961,000	73,854,000	24.4	5.1
1919	2,711,462,000	70.8	1,116,221,000	29.2	3,827,683,000	237,457,000	21.3	6.2
1920	3,115,958,000	61.1	1,985,865,000	38.9	5,101,823,000	325,646,000	16.4	6.4
1921[1]	1,564,278,000	61.2	992,591,000	38.8	2,556,869,000	292,397,000	29.4	11.4
1922[1]	1,888,240,000	61.4	1,185,533,000	38.6	3,073,773,000	451,356,000	38.1	14.7
Annual average	1,903,268,000	66.3	968,211,000	33.7	2,871,479,000	261,279,000	27.0	9.1
Fordney-McCumber law Effective Sept 22, 1922.								
1923	2,165,148,000	58.0	1,566,621,000	42.0	3,731,769,000	566,664,000	36.2	15.2
1924	2,118,168,000	59.2	1,456,943,000	40.8	3,575,111,000	532,286,000	36.5	14.9
1925	2,708,828,000	64.9	1,467,390,000	35.1	4,176,218,000	551,814,000	37.6	13.2
1926	2,908,107,000	66.0	1,499,969,000	34.0	4,408,076,000	590,045,000	39.3	13.4
1927	2,680,059,000	64.4	1,483,031,000	35.6	4,163,090,000	574,839,000	38.8	13.8
1928	2,678,633,000	65.7	1,399,304,000	34.3	4,077,937,000	542,270,000	38.8	13.3
1929	2,880,128,000	66.4	1,458,444,000	33.6	4,338,572,000	584,837,000	40.1	13.5
1930 (Jan. 1–June 17)	1,102,107,000	64.6	603,891,000	35.4	1,705,998,000	269,357,000	44.6	15.8
Annual average	2,565,490,000	63.8	1,458,080,000	36.2	4,028,570,000	561,615,000	38.5	14.0
Hawley-Smoot law. Effective June 18, 1930								
1930 (June 18–Dec. 31)	$ 979,016,000	69.5	$ 429,063,000	30.5	$1,408,079,000	$192,528,000	44.9	13.7
1931	1,391,693,000	66.6	696,762,000	33.4	2,088,455,000	370,771,000	53.2	17.8
1932[2]	885,536,000	66.8	439,557,000	33.2	1,325,093,000	259,600,000	59.1	19.6
1933	903,547,000	63.1	529,466,000	36.9	1,433,013,000	283,681,000	53.6	19.6
1934	991,161,000	60.6	644,842,000	39.4	1,636,003,000	301,168,000	46.7	18.4
1935	1,205,987,000	59.1	832,918,000	40.9	2,038,905,000	357,241,000	42.9	17.5
1936	1,384,937,000	57.1	1,039,040,000	42.9	2,423,977,000	408,127,000	39.3	16.8
1937	1,765,248,000	58.6	1,244,604,000	41.4	3,009,852,000	470,509,000	37.8	15,6
1938	1,182,696,000	60.7	766,928,000	39.3	1,949,624,000	301,375,000	39.3	15.5
1939	1,397,280,000	61.4	878,819,000	38.6	2,276,099,000	328,034,000	37.3	14.4
1940	1,648,965,000	64.9	891,691,000	35.1	2,540,656,000	317,711,000	35.6	12.5
1941	2,030,919,000	63.0	1,191,035,000	37.0	3,221,954,000	437,751,000	36.8	13.6
1942	1,767,592,000	63.8	1,001,693,000	36.2	2,769,285,000	320,117,000	32.1	11.6
1943[3]	2,180,826,000	64.5	1,200,054,000	35.5	3,380,88[illegible],000	391,540,000	32.6	11.6
1944[3]	2,707,103,000	69.9	1,164,693,000	30.1	3,871,796,000	368,234,000	31.6	9.5

* The Tariff Commission.

[1] The Emergency Tariff Act became effective on certain agricultural products on May 28, 1921, and continued in effect until September 22, 1922.

[2] Subsequent to June 21, 1932, certain commodities which had previously been on the free list were made taxable, and since that date have been reported as dutiable commodities. The principal commodities affected were petroleum, copper, lumber, and coal.

[3] Preliminary.

Australia	India
Belgium	Lebanon (Syro-Lebanese Customs Union)
Brazil	Luxembourg
Canada	Netherlands
Chile	New Zealand
China	Norway
Cuba	Union of South Africa
Czechoslovakia	Union of Soviet Socialist Republics
France	United Kingdom

Commenting on this significant announcement, President Truman said:

> It is important that the people of the United States realize the true significance of these negotiations, for us and for the world. They are not solely trade bargains. They are that; but they are much more. They are central to the structure of international economic cooperation under the United Nations. They are necessary to achieve the objectives of the Atlantic Charter and of Article VII of our mutual-aid agreements. They are necessary to strengthen and support the foundations of the International Monetary Fund and the International Bank for Reconstruction and Development and to pave the way for the kind of economic world envisaged in the *Suggested Charter for an International Trade Organization.*
>
> . . . .
>
> The subsequent trade-agreement negotiations announced today will carry forward these general principles and objectives by concrete and specific action to clear the channels of trade, replacing trade warfare by trade cooperation to the common benefit of all countries. Their success or failure will largely determine whether the world will move towards a system of liberal international trade, free from arbitrary, excessive tariffs, and discriminations, or will pay the heavy costs of narrow economic nationalism.

SUMMARY

The Republican tariff plank in 1932 showed no recognition of the repercussions of the Hawley-Smoot Tariff but rather boasted of the benefits received by farmers. The Democratic plank advocated reciprocal trade agreements based on bargaining with other countries. The Democratic victory assured this program. Machinery was set up following the passing of the law which authorized the President to make such agreements during a three-year period. This power was renewed at each expiration date. In bargaining, the President was authorized to reduce any rates of the Hawley-Smoot Tariff by as much as 50 per cent in return for concessions; but he was not to remove any item from the dutiable list to place it on the free list or vice versa. The provisions of the Reciprocal Trade Agreement Act were not new but were brought together into one program for the first time. Between 1934 and 1946 agreements were made with twenty-eight countries. In 1947, at the Geneva Conference, plans

included the negotiation of reciprocal trade agreements simultaneously with eighteen countries. The most recent renewal of the President's authority permits the rates to be lowered an additional 25 per cent below the rates in force on January 1, 1945.

QUESTIONS FOR DISCUSSION

1. In your opinion, what was the relationship, if any, between United States tariff policy during the 1920's and the world-wide depression of the 1930's?
2. Compare the condition of international trade in 1933 with that of 1929. How did the trend in United States imports and exports during this period compare with the trend in world trade?
3. Cite some of the significant objections to the Reciprocal Trade Agreement bill raised by the minority report of the House Ways and Means Committee. Comment on the validity of these objections. Specifically, what do you think of the minority's argument that the bill overemphasized the importance of our export trade, since the latter generally accounts for only 10 per cent of what we produce?
4. What are the purposes of the Reciprocal Trade Agreement Act? Review briefly the provisions of the act. To what extent are there precedents for these provisions in United States tariff history?
5. What is the difference between the conditional and the unconditional forms of the most-favored-nation clause? What are the advantages of the latter form?
6. How many reciprocal trade agreements were entered into between 1934 and 1940? Select one of these and review briefly the nature of its provisions.
7. What did the Republican platform of 1940 have to say about the tariff? Do you think that this represented a significant change in Republican tariff policy? Explain.
8. What was the trend in United States imports and exports between 1934 and 1939? What factors can you cite that might be responsible for this trend? What was the significance of the Reciprocal Trade Agreement Act in this respect? Explain fully.
9. Show the fallacy of Representative Plumley's analogy between trade and "cutting a man's throat in order to stop nosebleed."

CHAPTER XV

TARIFF MAKING AND THE WORK OF THE TARIFF COMMISSION

Introduction. Having considered the repercussions of tariffs and some of the tariff wars which have marked commercial history, let us turn next to the subject of how the tariff is made. In so doing we shall make special reference to the details connected with the Hawley-Smoot Tariff and then treat the framing of the Reciprocal Trade Agreements authorized by an amendment to that tariff law.

We have seen how through the years the idea of high tariffs has become associated with the Republican party and how the lower tariff has been the policy of the Democratic party. Every four years as the Presidential campaign rolls around, these two major parties frame their platforms and always make some mention of the tariff. These tariff planks are already familiar to the reader of the previous chapters. Their language is always general and usually indefinite; and they frequently embody nice sounding terms with hazy meanings. Having nominated the standard bearers, the campaign begins with the usual speeches. When the tariff is touched upon, certain stock arguments are used on both sides. These will be analyzed in another chapter, but at this point it may be remarked that the advocates of high tariffs and protection usually have positive appeals depending on the audience—the infant-industry argument for manufactures, the home market argument for farmers, the standard of living argument for laborers, the lowering of costs for consumers, and the preparedness and self-sufficiency argument for the average citizen. The opponents, in turn, usually offer answers to these arguments rather than a positive list of their own.

The victorious party then takes over the reins of government and usually fairly early in the administration turns to the subject of the tariff. Sometimes the President devotes a message to the subject, and since 1897 our tariffs have been considered in extra sessions of Congress. It makes little difference whether a Democratic administration follows a Republican administration or whether, as in 1929, a Republican administration promising a necessary revision of the tariff follows a Republican administration. The procedure remains the same.

The Tariff as a Revenue Producer. The Constitution of the United States provides that all bills for raising revenue must have their origin in

the House of Representatives, and the tariff, of course, is basically a revenue producer. This may be seen from Table 7 which shows the source of federal funds in terms of customs revenue, internal revenue, and total expenditures of the federal government, 1791–1946.

During 27 of the 63 years between 1791 and 1854, the receipts brought in by the tariff alone were more than adequate to pay all of the ordinary expenses of the federal government. From 1791 to 1894, a period of 103 years, the tariff constituted the largest source of federal income, exceeding that obtained from all other sources, including the sale of public lands, except for the year 1815; and again in 1836 and 1837 (when the proceeds from public land sales were large); the Civil War period, 1862 through 1868; and the years 1870, 1877, and 1892.

Beginning in 1894, a very different condition began to assert itself—one which has obtained ever since. The tariff became very much less important than the other sources of revenues. In only four years (1897, 1903, 1906, and 1907) did the tariff bring in an amount larger than the other combined sources of revenue. It contributed half or more of total revenue until 1910. By 1911, the classification "all other forms of revenue" became the larger figure and since has remained so. In 1915, the tariff yielded an amount equal to just half of the other revenue and contributed one-third or less toward the total expenditure for that year. In 1916, customs brought in considerably less than half of that produced by other sources. In 1917, the tariff's share had fallen to about 25 per cent. In 1918, it amounted to less than 5 per cent of that brought in by other sources and less than 0.2 per cent of total expenditures. Beginning in 1923 and continuing to 1930, the tariff was yielding about one-sixth of the revenue produced by other sources and about the same proportion of expenditures.

Since then, it has been contributing a lesser proportion of ordinary revenue and has been making a diminishing contribution to total expenditures. In 1936 and 1938, tariff receipts amounted to less than 0.5 per cent of expenditures and in 1940 less than 0.4 per cent. The importance of the tariff or lack of importance may be brought into bold relief by pointing out that in 1939 the tax on cigarettes alone amounted to $504,056,000 as compared to the tariff yield of $318,837,000. The figures for 1940 for cigarettes were $533,059,000 and for the tariff $348,590,000.

The tariff remains, however, as an accepted revenue producer and the tariff framers regard each of the fifteen schedules as the means of raising some millions of dollars each year. It is not that the tariff has been made less productive through a change in the policy of the United States but rather that expenditures have become astronomical and have been met by sources such as the income tax and new or heavier internal revenue taxes. As a weapon of diplomacy, however, the tariff still remains impor-

TABLE 7

CUSTOM RECEIPTS, OTHER ORDINARY REVENUE, AND EXPENDITURES OF THE UNITED STATES, 1791–1946*

Year	Receipts from Customs (000's Omitted)	All Other Ordinary Revenue, Including Sale from Public Lands (000's Omitted)	Expenditures (000's Omitted)	Year	Receipts from Customs (000's Omitted)	All Other Ordinary Revenue, Including Sale from Public Lands (000's Omitted)	Expenditures (000's Omitted)
1791	$ 4,399	$ 10	$ 3,097	1841	$ 14,487	$ 2,373	$ 26,482
1792	3,443	226	6,269	1842	18,187	1,789	25,135
1793	4,255	397	3,846	1843	7,046	1,185	11,780 (½ yr.)
1794	4,801	630	6,297	1844	26,183	3,137	22,484
1795	5,588	526	7,309	1845	27,528	2,442	22,954
1796	6,568	1,809	5,790	1846	26,712	2,987	27,261
1797	7,550	1,138	6,008	1847	23,747	2,720	54,920
1798	7,106	794	7,607	1848	31,757	3,871	47,618
1799	6,610	936	9,295	1849	28,346	2,375	43,999
1800	9,081	1,767	10,813	1850	39,668	3,924	40,948
1801	10,751	2,184	9,393	1851	49,017	3,538	47,751
1802	12,438	2,557	7,976	1852	47,339	2,507	44,390
1803	10,479	585	7,952	1853	58,931	2,656	47,743
1804	11,099	727	8,637	1854	64,224	9,576	55,038
1805	12,936	624	9,014	1855	53,025	12,325	58,630
1806	14,667	892	9,449	1856	64,022	10,034	68,726
1807	15,846	552	8,354	1857	63,875	5,090	67,634
1808	16,363	697	9,061	1858	41,789	4,866	73,982
1809	7,258	515	10,280	1859	49,565	3,212	68,993
1810	8,583	800	8,474	1860	53,187	2,867	63,201
1811	13,313	1,109	8,178	1861	39,582	1,894	66,650
1812	8,900	900	20,280	1862	49,056	51,900	469,600
1813	13,200	1,100	31,681	1863	69,059	112,000	718,700
1814	6,000	5,100	34,720	1864	102,316	243,300	865,000
1815	7,300	8,300	32,943	1865	84,928	322,000	1,295,100
1816	36,307	11,370	31,196	1866	179,046	340,903	519,022
1817	26,283	6,816	19,990	1867	176,417	286,429	346,729
1818	17,176	4,409	20,017	1868	164,464	211,970	370,339
1819	20,283	4,320	21,511	1869	180,048	177,140	321,190
1820	15,005	2,835	18,285	1870	194,538	201,421	293,657
1821	13,004	1,569	15,849	1871	206,270	168,161	283,160
1822	17,589	2,643	14,999	1872	216,370	148,324	270,559
1823	19,088	1,452	14,706	1873	188,089	134,083	285,239
1824	17,878	1,503	20,273	1874	163,103	136,838	301,239
1825	20,098	1,742	15,856	1875	157,167	126,853	274,623
1826	23,341	1,919	17,037	1876	148,071	141,995	265,101
1827	19,712	3,254	16,139	1877	130,956	150,044	241,334
1828	23,205	1,558	16,394	1878	130,170	127,276	236,964
1829	22,681	2,146	15,183	1879	137,250	135,072	266,948
1830	21,922	3,122	15,141	1880	186,522	147,004	264,847
1831	24,224	4,302	15,237	1881	198,159	162,623	259,650
1832	28,465	3,402	17,288	1882	220,410	183,115	257,981
1833	29,032	4,916	23,018	1883	214,706	183,581	265,408
1834	16,214	5,577	18,627	1884	195,067	153,452	244,125
1835	19,391	16,039	17,573	1885	181,471	142,219	260,226
1836	23,409	27,417	30,868	1886	192,905	143,534	242,482
1837	11,169	13,785	37,244	1887	217,286	154,117	267,931
1838	16,158	10,144	33,865	1888	219,091	160,175	259,653
1839	23,137	8,345	26,896	1889	223,832	163,218	281,996
1840	13,499	5,981	24,314	1890	229,668	173,412	297,736

* Figures up to 1930 are taken from Dewey's *Financial History of the United States*. Figures since 1930, *World Almanac*.

TABLE 7—*Continued*

Year	Receipts from Customs (000's Omitted)	All Other Ordinary Revenue, Including Sale from Public Lands (000's Omitted)	Expenditures (000's Omitted)	Year	Receipts from Customs (000's Omitted)	All Other Ordinary Revenue, Including Sale from Public Lands (000's Omitted)	Expenditures (000's Omitted)
1891	$219,522	$ 173,090	$ 355,372	1920	$323,537	$ 6,380,877	$ 6,482,090
1892	177,452	177,485	345,023	1921	308,025	5,276,492	5,538,209
1893	203,355	182,464	383,477	1922	357,545	3,746,052	3,795,302
1894	131,818	165,904	367,524	1923	562,189	3,284,857	3,697,478
1895	152,158	161,232	356,195	1924	545,012	3,339,029	3,506,677
1896	160,021	166,955	352,179	1925	548,522	3,059,122	3,529,643
1897	176,554	171,167	365,774	1926	579,717	3,328,741	3,584,987
1898	149,575	255,746	443,368	1927	605,672	3,522,751	3,493,584
1899	206,128	309,832	605,071	1928	568,157	3,470,079	3,643,519
1900	233,164	334,076	487,713	1929	602,820	3,433,399	3,848,463
1901	238,585	349,100	509,966	1930	584,771	3,589,281	3,994,152
1902	254,445	308,033	471,191	1931	378,340	2,428,228	4,091,597
1903	284,480	275,917	506,089	1932	327,752	1,557,729	4,947,777
1904	261,275	278,442	532,238	1933	250,747	1,619,839	4,325,150
1905	261,799	282,807	563,360	1934	313,434	2,672,239	6,370,947
1906	300,252	294,466	549,405	1935	343,353	3,299,435	7,583,434
1907	332,233	330,893	551,705	1936	386,811	3,520,208	9,068,886
1908	286,113	314,948	621,102	1937	486,356	4,653,195	8,281,380
1909	300,712	302,877	662,324	1938	359,187	5,658,765	7,304,287
1910	333,683	341,829	659,705	1939	318,827	5,181,573	8,765,338
1911	314,497	386,875	654,138	1940	350,851	5,340,452	9,127,374
1912	311,322	380,456	654,554	1941	392,233	7,370,108	12,774,890
1913	318,891	405,220	682,771	1942	388,984	13,001,590	32,491,307
1914	292,320	442,353	700,254	1943	324,290	22,143,968	78,182,348
1915	209,787	488,124	731,400	1944	431,252	41,684,987	93,743,514
1916	213,186	566,479	724,493	1945	354,775	43,902,001	100,404,596
1917	225,962	898,363	2,086,042	1946	435,475	40,310,333	65,018,631
1918	182,759	3,997,666	13,691,908				
1919	183,429	4,470,952	18,952,141				

tant regardless of its revenue yield. For this reason the way in which the rates are made is of great importance.

The Ways and Means Committee. The tariff accordingly becomes the particular responsibility of the oldest of the standing committees, the powerful Committee on Ways and Means. This committee consists of twenty-five members of whom fifteen are members of the majority party and ten represent the minority party. As in the case of the other Congressional committees, places are won in terms of seniority and the chairman, whose name is popularly attached to the tariff act, is the one who has served on the committee for the longest time.

Congressman Willis C. Hawley from Oregon was chairman in 1929 and his name, together with that of Senator Reed Smoot of Utah (chairman of the Senate Finance Committee) was attached to the celebrated Hawley-Smoot Tariff. The ten Democrats on the committee included Cordell Hull, who led the minority, and former Vice-President John Garner. When the hearings began, there was one vacancy on the Republican side of the committee. Of the fourteen men, six had been on the committee in

1922 and had helped to frame the tariff of that year, five had been members of the House and had helped to insure its passage, while only three were new to tariff making.[1]

The initiation of a tariff bill differs from that of the other bills. The latter type are introduced into the House by individual members and are then referred to the proper committee which reports back with recommendations. A tariff bill, on the other hand, is framed by the Ways and Means Committee after extended hearings and is then introduced into the House which refers it back to the committee.

The Schattschneider Study. In 1935 Professor E. E. Schattschneider undertook a very unusual task and carried it through to a significant end in the form of a book with the revealing title, *Politics, Pressures and the Tariff: A Study of Free Private Enterprise in Pressure Politics, as Shown in the 1929–1930 Revision of the Tariff.*[2] The thesis expressed is that the tariff is not only an economic problem but also a political one and that it has been relatively neglected by political scientists. Ably and interestingly written, the book throws a revealing light on the tariff problem in general and how the making of a tariff is influenced by interested persons and organizations.

The Public Hearings. When Congress assembled in December, 1928, it construed the election of Mr. Hoover (who was not to be inaugurated until the following March 4) as a mandate from the public to revise the tariff. Accordingly, on December 5, 1928, the Committee on Ways and Means announced that public hearings would begin on January 7, 1929. This was the only announcement made, since it was not the policy of the committee to urge any particular persons to express their ideas.

Preliminary to general tariff revision, the Committee on Ways and Means of the House of Representatives announces to all concerned that it will hold hearings at Washington, D.C., beginning January 7, 1929.

The distribution of time among the various schedules will be as follows:

Schedule	1. Chemicals, Oils and Paints....	January 7, 8, 9
	2. Earths, Earthenware, and Glassware....	January 10, 11
	3. Metals and Manufactures of........	January 14, 15, 16
	4. Wood and Manufactures of..........	January 17, 18
	5. Sugar, Molasses, and Manufactures of....	January 21, 22
	6. Tobacco and Manufactures of..........	January 23
	7. Agricultural Products and Provisions....	January 24, 25, 28
	8. Spirits, Wines, and other Beverages.......	January 29
	9. Cotton Manufactures..............	January 30, 31, February 1
	10. Flax, Hemp, Jute, and Manufactures of.....	February 4, 5

[1] Moore, Clayton F., "How a Tariff Bill Is Passed," *Congressional Digest*, Vol. VIII, (June–July, 1929), p. 164.

[2] Schattschneider, E. E., *Politics, Pressures and the Tariff: A Study of Free Private Enterprise in Pressure Politics, as Shown in the 1929–1930 Revision of the Tariff* (New York: Prentice-Hall, Inc., 1935).

11. Wool and Manufactures of....	February 6, 7, 8
12. Silk and Silk Goods.	February 11, 12
13. Papers and Books	February 13, 14
14. Sundries . . .	. . February 15, 18, 19
15. Free List.	. . . February 20, 21, 22
Administrative and Miscellaneous.	. . February 25

Hearings will be conducted in the hearing room of the committee, room 321, House of Representatives Office Building. Sessions will begin at 10 A.M. and 2 P.M., unless otherwise ordered.

Oral Testimony.—Those desiring to testify should apply to the clerk of the committee at least one day prior to the date of the hearing in order to be assigned time on the program for that day. The following information should accompany the application: Name; permanent address; temporary address in Washington; person, firm, corporation, or association represented; paragraphs of the act concerning which testimony is to be given; and the amount of time desired.

So far as practicable, the committee will seek to recognize witnesses who are qualified to give first-hand information. In order to avoid duplication of arguments and to conserve the time of the committee and witnesses, it is suggested that those interested in the same items, and having the same problem to present, agree, if possible, upon one representative to present their views.

Briefs.—Witnesses are requested to file two copies of their briefs with the clerk in advance of the date of hearing. It is suggested that briefs should follow the outline given below:

1. Items and paragraphs in which interested; changes in duties recommended; reasons for such recommendations.
2. Importance of industry; development of industry and future prospects; number of employees affected.
3. Domestic production costs and wages and comparable costs and wages in foreign countries; also, if available, information concerning dumping, unfair competition, or other practices aimed to impair or destroy domestic industries.
4. Source of imports, volume, and prices at which offered.
5. Suggestions as to changes of phraseology or classification in the existing law.
6. Suggestions as to administrative features of the existing law with a view to their betterment.

All briefs and other papers filed with the committee should have indorsed thereon the name and address of the persons submitting them and the numbers of the paragraphs of the present tariff law to which they relate.

Although the people who testified were urged to be brief and interested groups were urged to have a single spokesman,[8] more than 1,100 persons

[8] Chairman Hawley, for example, is quoted as saying: "The Chair would like to observe to certain witnesses that there appear to be 9 persons desiring to be heard on peanuts; 9 on onions, and on potatoes I think there are 16. The committee very greatly desires, if it is possible, that the gentlemen representing the onions, peanuts, and potato industries get together and select a few to represent them."

were heard orally while some 300 submitted briefs without appearing. The original time set of thirty-five days lengthened into forty-three days and nights. Stenographic records of all hearings (held from 10:00 A.M. to 2:00 P.M. daily) were taken and distributed in printed form the following day to all witnesses who were asked to make any necessary revisions. The hearings were then bound in book form, one volume for each schedule, and became available, at a price, from the Government Printing Office at Washington, D.C. Some are very large books, and others are smaller. For example, the hearings on Schedule 2, Earths, Earthenware, and Glassware, filled more than 800 pages. The hearings on Schedule 6, Tobacco, covered but 142 pages. In the four-day period, January 24–28, the committee took the testimony of 177 witnesses which filled 1,268 pages. In three days, 1,700 pages of testimony on free list were recorded.[4] All in all, a total of 11,000 pages of oral testimony, briefs, exhibits, etc., constituted the hearings. Even though, in the first instances, no testimony under oath was required, no serious subsequent attempt is made to check statements or briefs, to reconcile opposite views, or to requisition books or records.

Some Typical Excerpts from the Published Hearings. The reader who has not attended Congressional hearings or read them in published form is likely to put too much faith in them. The following excerpts may be regarded as typical of those heard during tariff hearings:

MR. GARNER: May I just say one word? I need not tell you that I smoke, but I do not know of any reason why the Congress of the United States should encourage the people to use tobacco. Your argument is to encourage the people to use tobacco. Suppose we discourage them by compelling them to use an undesirable wrapper. Do you not think it would be a good thing for the health of the public in this country?

MR. HIRST: I think probably the same thing would apply to legislation against women using candy.

MR. RAMSEYER: You are here asking for a reduction in the duty from $2.10 to $1.50 per pound?

MR. HIRST: Yes.

MR. RAMSEYER: You say you use 2½ pounds of wrapper to a thousand cigars?

MR. HIRST: No.

MR. RAMSEYER: How many pounds of wrappers are used in a thousand cigars?

MR. HIRST: I think it will average pretty close to two pounds to a thousand.

MR. RAMSEYER: That would be $1.20 on a thousand cigars, saving?

MR. HIRST: Yes.

MR. RAMSEYER: Would this be passed on to the consumer, and if so, how?

MR. HIRST: Either to the consumer or to the farmer.

[4] Cited by Schattschneider, *op. cit.*, p. 45.

MR. RAMSEYER: How?

MR. HIRST: Well, you have to divide this cigar up into parts. So much goes into taxes and so much goes into overhead; so much goes into filler and so much goes into wrapper, and so much goes into binder, and so forth.

MR. RAMSEYER: What I want to know is this. Would you pass it on to the consumer by way of a cheaper cigar, or a better cigar?

MR. HIRST: Let me answer your question my way. If we find, for instance, that Pennsylvania tobacco, under the law of supply and demand, is reaching a figure where it is impossible to get it for 5-cent cigars, then we have to use cheaper material in that cigar. We have found, by experience in the industry, that you can not successfully build a business on a poor 5-cent cigar. We know that that quality has to be maintained. We know, for instance, that the costs which we are bound to face under the condition of this year's crop of tobacco very seriously endanger the possibility of the successful making of a quality 5-cent cigar.

MR. RAMSEYER: What you mean by quality is the taste to the smoker?

MR. HIRST: I mean acceptable to the smoker.

MR. CHINDBLOM: Is this the "Tom Marshall Nickel Cigar," do you think? Your wrapper is Sumatra?

MR. HIRST: Yes.

MR. CHINDBLOM: What is your binder?

MR. HIRST: The binder is Northern Wisconsin.

MR. CHINDBLOM: What is the filler?

MR. HIRST: The filler is Pennsylvania and Porto Rico. I am giving away some trade secrets this morning by the way.

MR. CHINDBLOM: If you do not want that in the record, we will strike it out.

MR. HIRST: I have no objection.

MR. CHINDBLOM: You say that if a man buys a cigar and he does not like the taste of it he will not buy another. Do you think the taste is affected by the wrapper?

MR. HIRST: Yes, sir; very much so.

MR. CHINDBLOM: The wrapper adds enough to the flavor of the cigar . . . .

MR. HIRST: If we had time I would like to sit down and talk to you. I am afraid to get into the subject. I have been going over there for several years, and I love Sumatra tobacco because of the quality.

MR. CHINDBLOM: I presume I do too, but I do not know just how the wrapper is going to make so much difference in a 5-cent cigar.

MR. HIRST: If you put on a wrapper that is bitter, we will say—and that very often happens in tobacco, not only in Florida, but in some other districts, under certain conditions—it makes the cigar bitter, regardless of what is in the filler.

MR. CHINDBLOM: What I observe is that there is so little wrapper and so much of the other things.

MR. HIRST: There is very little salt in soup, but if you put too much in it spoils the soup.

MR. CHINDBLOM: That is a good argument.

MR. CROWTHER: I notice that the Tariff Commission says that the appearance of the wrapper almost entirely determines the attractiveness of the cigar, and

that the appearance, therefore, is much more important than its flavor and aroma.

MR. HIRST: I would like to have you come to our office and note the complaints that we get on the color of the wrappers on 5-cent cigars. We have had to be a lot more careful of our selection of colors of Sumatra wrappers in our purchases this year.

MR. CROWTHER: You were speaking about the wrapper affecting the flavor of the cigar. They say that its appearance is more important than its flavor or aroma—that is, speaking of the wrapper?

MR. HIRST: Not in a 5-cent cigar.

MR. CROWTHER: Is this box that you have submitted out of stock?

MR. HIRST: Yes.

MR. CROWTHER: Is that what you regularly put out?

MR. HIRST: Yes, sir. Those cigars were made about one month ago.[5]

. . . .

MR. CROWTHER: Are you an American citizen?

MR. BLAINE: I am.

MR. CROWTHER: I heard you say "our mills" when you were discussing Canadian mills.

MR. BLAINE: I meant our mills on the Washington side. I am a Washingtonian.

MR. CROWTHER: Then you think that all these men who are here asking for this tariff, who to the best of our knowledge and belief, have been hanging on by their eyelids, together with the shingle men, for a number of years, are all millionaires and are here under false pretenses?

MR. BLAINE: The loggers and the timber owners on Puget Sound are not hanging on by the ears. They have been making a profit.

MR. CROWTHER: 1,600 and 1,800 per cent?

MR. BLAINE: I will not say that rate. That is what was determined by the Tariff Commission, not by me. But I say that if you take the profit that they are making, you will find that they are making money at the present time.

MR. CROWTHER: And they have been all through this period?

MR. BLAINE: They have been making money for many years. I have lived in the State of Washington and in the territory since 1884, and I have been familiar with that industry. I think that our loggers in the last dozen years have been in a very fine situation.

MR. CROWTHER: Then you would disagree entirely with the evidence given by the men in the business. Are you in the business?

MR. BLAINE: I am, to a certain extent.

MR. CROWTHER: To what extent?

MR. BLAINE: I am interested in logging in British Columbia, and I am also interested . . . .

MR. CROWTHER (interposing): Oh, that is quite different; that gives your evidence quite a different complexion, of course.

---

[5] "Tariff Adjustment, 1929," *Hearings before the Committee on Ways and Means, U.S. House of Representatives,* (*70th Cong., 2d sess.*), on "Tobacco and Manufactures of," (Washington, D.C.: U.S. Government Printing Office, 1929), Vol. VI, Schedule 6, pp. 3449–51.

MR. BLAINE: I spend practically all of my time on a farm in Yakima County, Washington.

MR. CROWTHER: But your interests are largely in British Columbia, in logging?

MR. BLAINE: No; they are not.

MR. CROWTHER: That is just what you said.

MR. BLAINE: No; I said that I have interests in British Columbia.

MR. CROWTHER: Considerable interests? They are rather considerable, are they not?

MR. BLAINE: No, not large.

MR. CROWTHER: Of course, I do not know what you call large. To me a couple of hundreds of dollars would be large. Maybe a million dollars would not be much to you—I do not know.

MR. BLAINE: I will say to you that my interests in the State of Washington are larger than they are in British Columbia.

MR. CROWTHER: In British Columbia?

MR. BLAINE: I say that they are larger in the State of Washington than in British Columbia, without mentioning what they are.[6]

The Writing of the Bill. After this voluminous mass of testimony had been gathered, the committee ceased sitting as a whole and split up into subcommittees of three members each to write the various schedules in accordance with plans announced before the hearings had begun. This meant that each Republican member knew that he was the chairman of one committee responsible for a schedule and a member of two other committees, and for this reason he remained alert to the testimony pertinent to his task. In the writing of the schedules the members made use of the Ways and Means Committee's own staff and had the authority to call in experts of the Tariff Commission as well, some of whom attended the hearings. Mr. Moore writes:

Contrary to the belief that has been held in some quarters, these men have made a continuous study of the tariff question since coming to Congress, and most of them were thoroughly schooled in the fundamentals before then. Many of them spend their spare time in mills and workshops and on farms, becoming familiar with the practical machinery of industry and agriculture. Most of them have visited the custom houses of our great ports and have familiarized themselves with the actual operation of a tariff law. They were picked for the

---

[6] *Ibid.*, "Wood and Manufactures of," Vol. IV, Schedule 4, pp. 2669–2701.

For the intangible nature of the information, see Schattschneider, *op. cit.*, pp. 68 ff. The Schattschneider study cites the testimony of a representative of the hat industry. He had completed some testimony to the effect that the average wage in Italy in 1929 was $6 a month. When asked how he knew this, he admitted he had seen no payrolls and that he had had no contact with Italian employers. He had, instead, driven his automobile through populated Italian cities and districts and talked to workers. This sounded convincing until subsequent questions brought out that he could not speak Italian. Ultimately, his statement was modified: "It is my own opinion, without any fact" (p. 72 n.).

committee because of their ability to examine the facts in a national light, rather than from the standpoint of their individual districts.[7]

In preparing the bill, as pointed out in a previous chapter, the chemical schedule is put first as Schedule 1. Since it is lengthy, difficult to understand, and controversial, it usually consumes enough of the time allotted for the bill as a whole to allow the other schedules to go through with little or no consideration. The possibilities can be seen readily by referring to the paragraph dealing with coal tar products as finally passed:

(*a*) (1) Acetanilide not suitable for medicinal use, alphanaphthol, aminobenzoic acid, aminonaphthol, aminophenetole, aminophenol, aminosalicylic acid, aminoanthraquinone, aniline oil, aniline salt, anthraquinone, arsanalic acid, benzaldehyde not suitable for medicinal use, benzal chloride, benzathrone, benzidine, benzidine sulfate, benzoic acid not suitable for medicinal use, benzoquinone, benzol chloride, benzyl chloride, benzylethylaniline, betanaphthol not suitable for medicinal use, bromobenzene, chlorophthalic acid, cinnamic acid, cumidine, dehydrothiotoluidine, diaminostilbene, dianisidine, dichlorophthalic acid, dimethyl aniline, dimethyllaminophenol, dimethylphenyl-benzylammonium hydroxide, dimethylphenylenediamine, dinitrobenzene, dinitrochlorobenzene, dinitronaphthalene, diphenylamine, hydroxyphenylarsinic acid, metanalic acid, methylanthraquinone, naphthylamine, nitroaniline, naphthylenediamine, nitroanthraquinone, nitrobenzaldehyde, nitrobenzene, nitronaphthalene, nitrophenol, nitrophenylenediamine, nitrosodimethylaniline, nitrotoluene, nitrotoluylenediamine, phenylenediamine, phenylhydrazine, phenylnaphthylamine, phenylglycine, phenylglycineortho-carboxylic acid, phthalic acid, phthalic anhydride, phthalimide, quinaldine, quinoline, resorcinol not suitable for medicinal use, salicylic acid and its salts not suitable for medicinal use, sulfanilic acid thiocarbanilide, thiosalicylic acid, tetrachlorophthalic acid, tetramethyldiaminebenzophene, tetramethyldiaminidiphenylmethane, toluene sulfochloride, toluene, sulfonamide, tribromophenol, toluidine, tolidine, tolyloenediamine, xylidine, anthracene having a purity of 30 per centum or more, carbazole having a purity of 65 per centum or more, naphthalene which after the removal of all water present has a solidifying point of seventy-nine degrees centigrade or above, all the foregoing products in this paragraph whether obtained, derived, or manufactured from coal tar or other source

(2) all distillates (except those provided for in subparagraph (*b*) of coal tar, blast-furnace tar, oil-gas tar, and water-gas tar, which on being subjected to distillation yield in the portion distilling below one hundred and ninety degrees centigrade a quantity of tar acids equal to one or more than 5 per centum of the original distillate or which on being subjected to distillation yield in the portion distilling below two hundred and fifteen degrees centigrade a quantity of tar acids equal to or more than 75 per centum of the original distillate; . . .

[7] Moore, *op. cit.*, p. 164.

Its Introduction and Passage by the House. The schedules having been written, they were reviewed by a caucus of the majority members in executive session. Many years after the Hawley-Smoot bill had become a law, Representative Robert L. Doughton of North Carolina, chairman of the Ways and Means Committee in the Roosevelt-Truman administration, referred to this procedure: "I was a member of the committee at that time and I, as well as the other nine Democratic members of the committee—two-fifths of the elected Representatives of the people—was excluded from the committee's executive sessions on the bill. Instead, I am reliably informed that the Democratic members' seats were occupied by tariff lobbyists, who were kept well informed and who were prompting the Republicans in their formulation of the Hawley-Smoot bill."[8] The tariff bill was introduced on May 7 into the House of Representatives. Then it was referred back immediately to the committee which had written it but which now was "officially" in charge of the bill for the first time. The Committee on Ways and Means reported the bill favorably, of course, two days later by a strictly party vote. Because it was a revenue bill, it enjoyed the special privilege of being subject to consideration at any time. As a result it passed the House in less than three weeks.

This speed and smoothness of procedure was due to the careful control exerted in the House by the parliamentarians and those responsible for the passage of the bill. As described by the clerk of the Ways and Means Committee: "If the debate becomes acrimonious, prolonged, and dilatory the House leaders generally bring in a rule to limit it. At the conclusion of this general debate the bill is read under the 5-minute rule for amendments. At this time amendments are offered and their sponsors are permitted five minutes in which to state their reasons for the amendments. Replies are made in the same manner." This deliberation takes place before the House which is sitting as a Committee of the Whole House on the State of the Union. After considering the bill and the amendments, the committee rises and reports the bill to the House with or without the amendments. The House then approves the amendments as a whole or votes on them separately. The minority party then, *pro forma*, presses a motion to recommit the bill to the Ways and Means Committee with certain instructions. This usually fails, and the bill is voted upon and passes. In the case of the Hawley-Smoot bill, according to Representative Dingell of Michigan, the bill consisted of 434 pages and contained 183 sections.

The first 2 sections alone contained 727 paragraphs. There were 10,681 lines in this bill. Not satisfied with the results of their star-chamber methods in committee, the "four horsemen"—Longworth, Snell, Tilson, Hawley—then

[8] *Congressional Record,* May 22, 1945.

in control of the House, brought the bill up under a special gag rule for consideration by the other 420 Members on Friday, May 24, 1930, May 25, May 27, and May 28, devoting in all 19 hours and 6 minutes' consideration to the bill, during which time the 420 Members were permitted to consider only 82 of the 10,681 lines and only 4 of the 434 pages to the bill.[9]

When the bill was made public, it was usually received critically and with disapproval by the public. Accordingly, the Senate Finance Committee may face a harder task because interested persons, firms, and even foreign governments now have tangible rates to sponsor and encourage or oppose. This was especially noteworthy in the case of the Hawley-Smoot bill.

The Senate Finance Committee Hearings. The Senate Finance Committee, the fund-raising committee, consisting of nineteen members of whom eight were Democrats, gave public notice on June 7 that public hearings would be held on June 13 to June 25. Table 8 is an example of the public announcement of such hearings.

The committee had to prolong the hearings until July 18. Unlike the Committee on Ways and Means, the Senate Finance Committee does not sit as a body except when hearings are being held on the free list and on administrative sections of the bill. For the regular schedules, the committee divides into four bipartisan subcommittees, each of which undertakes to listen to testimony on from three to five schedules. The chairmen are again selected from the dominant party, and they rotate the position. After accumulating 9,000 pages of testimony under oath, the bill was revised in an executive session of the Republican members of the Finance Committee and in this form was reported to the Senate on September 4. In the Senate, opposition prevented the smooth passage of the bill. Accordingly, it was not until June 17, 1930—over eighteen months after the first hearings were held—that the new tariff became a law.

The Conference Committee and the Final Passage. Since the bill as passed by the Senate differed from that which the House had submitted, a Conference Committee was appointed consisting of the five ranking Senators of the Finance Committee (three Republicans and two Democrats) and a like number of Representatives (again three Republicans and two Democrats) from the Ways and Means Committee to iron out the differences. The minority members are appointed *pro forma* since they are not invited to the meetings and merely register a partisan disagreement. The sessions have been described as wearying and hurried and based on give and take. At such times amendments may be agreed upon which are inconsistent with the rest of the bill. Moore says: "They cannot rewrite the bill, nor change any rate or language which both Houses approved. They are limited to the differences between the two bodies, and in set-

[9] *Ibid.*, May 24, 1945, p. 5401.

TABLE 8

DATES OF HEARINGS AND TARIFF SUBCOMMITTEES OF THE SENATE FINANCE COMMITTEE

Schedules	Dates to Commence	Subcommittees
		SUBCOMMITTEE No. 1, ROOM 212, SENATE OFFICE BUILDING
1. Chemicals, oils, and paints	June 14	Smoot, chairman, Reed, Edge, King, and Barkley
2. Earths, earthenware, and glassware	June 19	Edge, chairman, Smoot, Reed, King, and Barkley
3. Metals and manufactures of	June 26	Reed, chairman, Smoot, Edge, King, and Barkley
		SUBCOMMITTEE No. 2, ROOM 312, SENATE OFFICE BUILDING
6. Tobacco and manufactures of	June 13	Shortridge, chairman, Smoot, Watson, Harrison, and Connally
8. Spirits, wines, and other beverages	June 14	Shortridge, chairman, Smoot, Watson, Harrison, and Connally
7. Agricultural products and provisions	June 17	Watson, chairman, Smoot, Shortridge, Harrison, and Connally
5. Sugar, molasses, and manufactures of	June 26	Smoot, chairman, Watson, Shortridge, Harrison, and Connally
		SUBCOMMITTEE No. 3, ROOM 301, SENATE OFFICE BUILDING
9. Cotton manufactures	June 14	Bingham, chairman, Greene, Sackett, Simmons, and George
10. Flax, hemp, jute, and manufactures of	June 19	Greene, chairman, Bingham, Sackett, Simmons, and George
11. Wool and manufactures of	June 24	Bingham, chairman, Greene, Sackett, Simmons, and George
12. Silk and silk goods	July 1 (2:00 P.M.)	Sackett, chairman, Greene, Bingham, Simmons, and George
13. Rayon manufactures	July 8	Sackett, chairman, Greene, Bingham, Simmons, and George
		SUBCOMMITTEE, No. 4, ROOM 412, SENATE OFFICE BUILDING
14. Papers and books	June 13	Deneen, chairman, Couzens, Keyes, Walsh (Mass.), and Thomas (Okla.)
4. Wood and manufactures of	June 17	Couzens, chairman, Deneen, Keyes, Walsh (Mass.), and Thomas (Okla.)
15. Sundries	June 25	Keyes, chairman, Couzens, Deneen, Walsh (Mass.), and Thomas (Okla.)

tling these differences they may adopt one of three positions. They may agree to accept the House rate in the bill, in which case the Senate would yield its amendment. They may agree to accept the Senate rate, in which case the House would; and, lastly, they may compromise by fixing a rate between the two."[10] The Senate rates usually prove victorious. Professor Taussig explains this in terms of the greater influence of the Senate arising out of its smaller size, its compactness, and the longer term of office,

[10] Moore, *op. cit.*, p. 165.

the greater subservience to large interests, the equal representation enjoyed by each state, senatorial courtesy and log-rolling, and unlimited debate.[11] The bill is then reported out of conference and, although on occasion is sent back, never fails of final passage. It is then signed by the President and ceases to be called a bill. It is now a law or an act.

HOW THE RECIPROCAL TRADE AGREEMENTS ARE MADE

The Task. Having seen how tariffs are made in the United States and how the Hawley-Smoot Act was framed and passed, there remains now the consideration of how the Reciprocal Trade Agreements are made. The two are, of course, related—the latter growing out of an amendment to the former. As pointed out in a previous chapter, Congress amended the Hawley-Smoot Act in 1934 by an addition after Title III, Part III, entitled "Promotion of Foreign Trade." We are already familiar with its provisions, but they may be summarized here briefly. The President was authorized after public hearings and obtaining information and advice from the Tariff Commission, the Departments of State, Agriculture, and Commerce, and any other sources, to enter into reciprocal agreements with foreign governments. In this bargaining process, he was specifically prohibited from canceling or reducing any of the indebtedness of any foreign country to the United States, but he was permitted to increase or reduce any rate by not more than 50 per cent. No article, however, was to be transferred between the dutiable and free lists.

The Organization. To carry out this work intelligently, there has been built up an elaborate machinery involving a number of departments of government. First of all, there is the State Department under whose authority all negotiations with foreign government must be carried on. Then, of course, there is the Department of Commerce whose Bureau of Foreign and Domestic Commerce is concerned with trade promotion. The Treasury Department, too, must be consulted because it has charge of revenue, the collection of duties, customs problems, and related work. The Department of Agriculture is likewise concerned with the framing of Reciprocal Trade Agreements because much of the negotiations involve basic agricultural products, both domestic and foreign. Finally, the Tariff Commission has much to contribute to an intelligent bargaining because of its studies dealing with many phases of cost of production of important commodities and the fiscal and economic effects of tariffs.

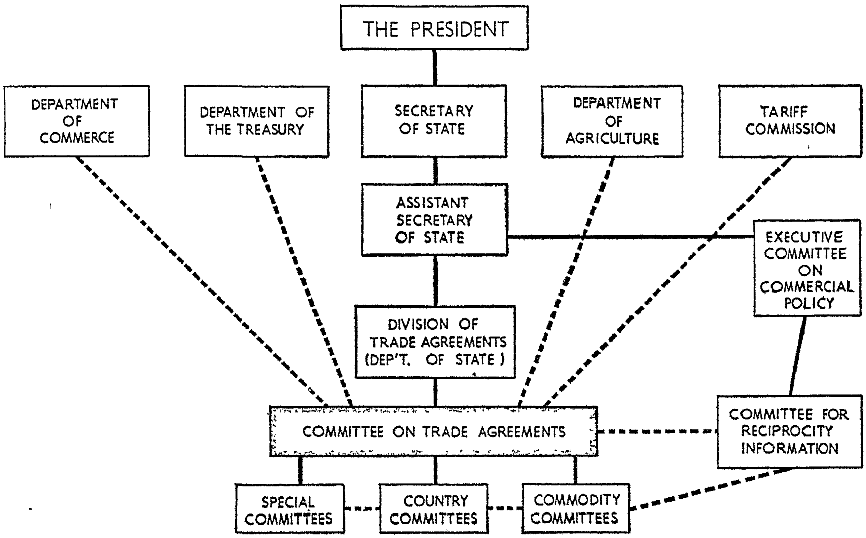
Chart I shows the position of these five governmental agencies. The key position, however, of the State Department is to be noted. Under its direct auspices is to be found the *Division of Trade Agreements.* This division is responsible for drawing up the preliminary proposals which are deemed desirable from the point of view of the United States, and in so

[11] Taussig, F. W., *Tariff History of the United States* (New York: G. P. Putnam's Sons, 1914), p. 373.

far as it is possible to anticipate, acceptable to the particular country with which negotiations are to be entered. This preliminary draft is then turned over to the *Interdepartmental Committee on Trade Agreements* (see chart) presided over by a representative of the State Department. Aiding the Interdepartmental Committee are subcommittees, the *Country Committees*, the *Commodity Committees*, and the *Special Committees*. The members of these committees are specialists in their fields. Those serving

CHART I

THE TRADE AGREEMENTS ORGANIZATION



on the Country Committees are well versed in the economic and industrial phases of the particular country involved in the negotiations. Those on the Commodities Committees, as the name implies, are authorities on key commodities about which agreements frequently are built. The Special committees are made up of specialists capable of advising on technical problems of numerous kinds.

The Interdepartmental Committee now sets to work holding "conversations" with representatives of the country involved. These are feelers, and, if the overtures are favorably received, an announcement is made by the Secretary of State that negotiations are contemplated. This is followed by a published report throwing light on the trade relations between the countries and including pertinent statistics. This is to arouse suggestions and criticisms which are carefully considered and incorporated in the concession list being framed by the Interdepartmental Committee, which has before it two lists prepared by its subcommittee. One list, or Schedule I,

contains the items on which this country would like to receive concessions, while the other list is anticipatory in that it contains items on which the other country is likely to demand concessions.

About five weeks after the preliminary announcement is made, a formal notice is published of the intention to negotiate. This is accompanied by the list of concessions wanted by the United States and by the other country. Public hearings are provided at which statements, both oral and written, are received. The committee which conducts the hearings is known as the "Committee for Reciprocity Information" (see chart) and is presided over by the Vice-Chairman of the Tariff Commission. When the hearings are completed, they are presented in the form of a digest to the Interdepartmental Committee on Trade Agreements. This committee then revises the two schedules and submits them to the Secretary of State and the President for approval or change. The schedules are now ready for use in the delicate work of negotiation and bargaining, which might consume many months. During the whole period of negotiation, a watchful eye is kept on its progress as well as on the way in which the various departments are co-operating for the ultimate success of the undertaking by a committee within the Interdepartmental Committee. It bears the appropriate title of "Planning Committee." The broad policies sought for in the Reciprocal Trade Agreements are laid down for the guidance of all concerned by the "Executive Committee on Commercial Policy," presided over by an Assistant Secretary of State. All committees, it might be remarked, have representatives of each department included in their membership.

The Form of the Agreement. The agreements have much in common in so far as structure is concerned. They contain standard clauses embodying general principles and other clauses covering the specific concessions made. The latter, of course, differ widely. Among the standard clauses are those providing for mutual unconditional most-favored-nation treatment, and this applies to import quotas, foreign exchange regulations, purchase by government monopolies, as well as to merchandise. This is important because it assures that in general the *status quo* based on the agreement will be maintained during the life of the agreement instead of being shattered by new impositions of quotas or other restraints—unless, of course, such are anticipated in the agreement.

The Type of Concessions. In seeking the commodity of which the country in question is the chief supplier, in order to get the greatest possible concessions, difficulty is sometimes faced and rather arbitrary and fanciful classifications must sometimes be established. This proved true in the Belgian and Swedish negotiations. Belgium was "discovered" to be the chief supplier of handmade lace two inches wide, valued at more than $50 a pound, while Sweden was credited with a similar position for matches in small boxes with uncolored stems, valued at from 17½ cents to

20 cents for a gross.[12] Professor Dietrich has classified the concessions under five heads:[13]

I. Tariffs
  a) Duty reductions
  b) Duty binding and free list binding
  c) Duty reduction for specified quota
  d) Duty reduction for a season of the year

II. Quotas
  a) Maximum quota
  b) Enlargement of quota
  c) Abolition of quota

III. Taxes and transportation
  a) Same transportation rates for imports as for domestic products
  b) Reduction of import license taxes or monoply fees
  c) Relief from import-turnover tax.

IV. Foreign Exchange
  a) Liquidation of debts
  b) Allocation for imports

V. Miscellaneous
  a) Reshipment at American ports without loss of import advantages (Canada)
  b) Relief from arbitrary valuations for duty purposes (Canada)
  c) Agreement to legislate for $100 free entry tourist imports without sales tax (Canada)
  d) Purchase commitments (France, tobacco; Netherlands, grain)
  e) Aid in suppression of smuggling (Swiss)

Up to January 1, 1939, the following concessions were made in terms of the sixteen schedules comprising the tariff.

Schedule	Items and Groups of Commodities
1. Chemicals, oils, and paints	89
2. Earths, earthenware, and glassware	68
3. Metals and manufactures of	173
4. Wood and manufactures of	16
5. Sugar, molasses	7
6. Tobacco and manufactures of	3
7. Agricultural products	138
8. Spirits, wines	17
9. Cotton manufactures	35
10. Flax, hemp, jute	30
11. Wool and manufactures of	31
12. Silk	9
13. Rayon	6
14. Paper and books	37
15. Sundries	128
16. The free list	139

[12] Dietrich, Ethel B., *World Trade* (New York: Henry Holt & Co., 1939), p. 219.
[13] *Ibid.*, pp. 220–21.

THE WORK OF THE TARIFF COMMISSION

Forerunners of the Present Commission. The recognition that tariff policy and its application in the form of customs duties calls for study and that cost of production data are difficult to obtain in spite of their basic importance in determining rates is not new. Similarly, the problems associated with the incidence of such taxes and their effect on prices and business in general have also been recognized. On a number of occasions, advice and information have been sought by Congress through the appointment of one sort of temporary commission or another. In 1865, part of the task of the Revenue Commission and of the Commissioner, David A. Wells, who was appointed to serve until 1870, was to observe the working of revenue laws, including the customs, and to offer suggestions regarding them and their method of collection.

In 1882, a Tariff Commission was appointed consisting of nine commissioners who were to investigate all phases of our economy necessary for establishing a good tariff law or for revising the one then in existence. The membership consisted of high protectionists under the chairmanship of the Secretary of the Wool Manufacturers' Association. Public hearings were held in 29 different places, and the testimony of 604 witnesses was gathered. The report, issued in December, 1882, preceded the tariff of 1883 but had little positive influence on it in that most of the recommendations for substantial reductions were disregarded.

In 1888, Congress directed the Commissioner of Labor, a position established in 1884, "to ascertain, at as early a date as possible, and whenever industrial changes should make it essential, the cost of producing articles at the time dutiable in the United States in leading countries where such articles are produced, by fully specified units of production, and under a classification showing the different elements of cost, or approximate cost of such articles of production, including wages paid in such industries per day, week, month, or year, or by the piece; and hours employed per day." In addition, the profits of manufacturers or producers of such articles as well as the comparative cost and scale of living were to be determined. The studies made dealt with iron, steel, glass, textiles, coal, and coke and were made available in 1891.

Little was done after this time until 1912 when the work was revived by the establishment of the Bureau of Foreign and Domestic Commerce charged with "developing the various manufacturing industries of the United States and markets for the products at home and abroad, by gathering and publishing useful information, or by any other available means." The bureau made studies of pottery, five branches of the clothing industry, cotton-spinning machinery, cane sugar, and glass. Five years later, the responsibility for such investigations was transferred to the Tariff Commission.

President Taft's Tariff Board. The Tariff Act of 1909 authorized the President to secure assistance in determining the use to be made of a retaliatory provision in the act to the effect that, if any country extended less favorable treatment to the exports of the United States than they gave to other countries, he could levy an additional duty of 25 per cent ad valorem. Thus came into existence President Taft's Tariff Board. It consisted of three Republicans. When attempts in Congress to provide a bipartisan board failed because of a filibuster on the last day of the short session, the President proceeded to add two Democrats to his advisory board. In 1910, however, the Republicans lost the election, and in 1912 the Tariff Board went out of existence when a Democratic majority voted no appropriation for it. It had, nevertheless, completed reports on cotton and woolen textiles, chemicals, oils and paints, and pulp and newsprint papers. Unfinished investigations dealt with the production of iron, steel, lead, zinc, flax, hemp, jute, leather, hides, leather goods, sugar, corn and wheat products, fruits and nuts.

The Tariff Commission of 1916. The present Tariff Commission dates from 1916 and President Wilson's administration. Professor Taussig, who had a leading part in writing the law, was invited to become its first chairman. This he did in order to get it firmly established. He resigned in 1919 and returned to Harvard University.

The law provided:

> That it shall be the duty of said commission to investigate the administration and fiscal and industrial effects of the customs laws of this country now in force or which may be hereafter enacted, the relations between the rates of duty on raw materials and finished or partly finished products, the effects of ad valorem and specific duties and of compound specific and ad valorem duties, all questions relative to the arrangement of schedule and classification of articles in the several schedules of the customs was, and, in general to investigate the operation of customs laws, including their relation to the Federal revenues, their effect upon the industries and labor of the country, and to submit reports of its investigations as hereafter provided.
>
> That the commission shall have power to investigate the tariff relations between the United States and foreign countries, commercial treaties, preferential provisions, economic alliances, the effect of export bounties and preferential transportation rates, the volume of importations compared with domestic production and consumption, and conditions, causes, and effects relating to competition of foreign industries with those of the United States, including dumping and cost of production.

It was also stipulated that the commission was to place such information at the disposal of interested groups such as the Ways and Means Committee and the Senate Finance Committee. In obtaining such material from domestic sources, the commission was authorized to inspect documents and records of business concerns, to summon witnesses, to adminis-

ter oaths, to take testimony, and to invoke the aid of the District Court in dealing with recalcitrant sources.

The fact must be kept in mind that the commission had no power over rates. It could merely make recommendations. Whether the President or the Ways and Means Committee or the Senate Finance Committee profited by them was up to each group. Whether political pressures or economic facts were to help form tariff policy likewise was outside of the commission's control. As events turned out, however, it is perhaps just as well that rate making was denied the commission. It was bipartisan in structure as the result of the law which provided that of the six members, not more than three were to be chosen from any one party. The commission was also to be safeguarded in its membership by the provision that no member was to be engaged actively in any other business, function, or employment and that members were to be removable for "inefficiency, neglect of duty, or malfeasance in office."

Some of President Harding's appointees to the commission could hardly be regarded as open-minded fact finders and investigators. One of his appointees who became chairman and served until 1930 was the Secretary of the Home Market Club and an ardent protectionist. Another was the highly successful lobbyist of many years' standing and Secretary of the United States Potters Association. He returned to this work after leaving the commission in 1925. A third appointee had a wife and brother-in-law with sugar interests in Louisiana and was the son-in-law of the man described in the trade journal as "one of the foremost figures in the Louisiana sugar industry through its entire career."[14] These three men, although the last-mentioned was appointed as a Democrat, sided consistently with each other where important decisions were involved. Other curious incidents could be cited in connection with the earlier years of the Commission, but enough has been said to suggest that the tariff controversy remained just as alive inside the House and Senate and the political arena generally. Whether the commission, ultimately will become a rate-fixing body on a par with the Interstate Commerce Commission, as Professor Taussig suggested in 1930, remains to be seen. The present Reciprocal Trade Agreements would seem to preclude this power since the very essence of bargaining, subject to the limits set by Congress, must allow for flexibility.

For a time following the tariff act of 1922, it appeared that the commission would assume a more important place in tariff rate determination, but again the initiative had to be that of the President, and the work of the Commission was confined to making recommendations. The act of that year provided for flexible tariff provisions intended to equalize "the differences of costs of production in the United States and the principal competing country" and also to fight against unfair methods of competi-

[14] Wright, Philip G., *Tariff-Making* (Rawleigh Tariff Bureau), p. 21.

tion, unfair acts in the importation of goods, and discrimination. These provisions were to be invoked only after an investigation by the commission. The use made of this authority was by no means impressive, however.

The Present Tariff Commission. The present Tariff Commission takes its form and functions from the Hawley-Smoot Tariff Act of 1930. This act repeats much of the law of 1916 verbatim. The same number of commissioners is provided as well as the bipartisan character of the commission. Higher salaries of $11,000 per annum are provided, however. The commission's powers of investigation—summoning of witnesses, taking testimony under oath, and so on—are continued and to some degree strengthened. A more detailed statement as to the nature of the Commission's investigations is included—the outgrowth of a greater concern over costs of production, competitive conditions, unfair methods of competition, discrimination by foreign countries, flexible tariff provisions, retaliatory provisions, and so on. Some idea of the functions of the Tariff Commission today may be had from the accompanying chart of functions taken from an annual report (Chart II).

Publications of the Commission. Since its organization in April, 1917, the Commission has published over 500 reports. Of these, about 400 concern commodities or industries and include some 700 individual items and industrial groups. Besides these reports, the Commission has distributed much material reproduced by office duplicating processes. In 1940, it sent out well over 10,000 copies of its printed publications and over 35,000 copies of the processed material.[15] Since December 1, 1939, the commission has issued studies and reports connected with crude rubber, earthen floor and wall tile, glues, gelatins and related products, alcoholic beverages, cattle, sheep, poultry, cement and concrete products, dairy products, fats, oils, waxes, and oil-bearing materials, feeds and fodders, fishery products, forest products, fruit and fruit products, glass and glassware, grain and grain products, hogs and hog products, lace and lace articles, leather, leather footwear, petroleum products, pottery, starches and dextrines, sugar, tobacco and tobacco manufactures, vegetables and vegetable products, watches, clocks, and precision equipment, woolen and worsted goods, red cedar shingles, silverware, and synthetic organic chemicals. The commission also published its significant *Foreign Trade of Latin America Study* to which reference will be made later, as well as bibliographical material, and information on exports, imports, and concessions under Reciprocal Trade Agreements.

An interesting proposal was introduced into the United States Senate by Senator Brewster in May, 1947. He would change the name of the Tariff Commission to the United States Foreign Trade Board. The latter

[15] *Twenty-fourth Annual Report of the United States Tariff Commission* (Washington, D.C.: U.S. Government Printing Office, 1940), p. 55.

CHART II

UNITED STATES TARIFF COMMISSION

CHART OF FUNCTIONS PRESCRIBED BY LAW

GENERAL POWERS AND DUTIES

To investigate—

In United States—
- Administration, effects, and operation of customs laws;
- Relation of rates on raw materials and products thereof;
- Effects of the several forms of duty,
- Arrangement of schedules
  - Classification of articles
- Nature of imports

In Foreign Countries—
- Tariff relations, including commercial treaties, preferential provisions, export bounties, economic alliances, relation of imports to domestic production and consumption, generally competitive conditions.

In United States and/or Foreign Countries—
- Production and conversion costs, prices, other factors affecting competition
- On request, to furnish information and to make reports to the President and to the Ways and Means and Finance committees.
- To report annually to Congress.

Reciprocal Trade Agreements—
- Act of June 12, 1934
  - In conjunction with other government departments, to inform and advise the President before the conclusion of foreign-trade agreements.

Soil Conservation Act—
- As amended August 24, 1935
- At the direction of the President—
  1. To investigate conditions wherein imports prejudicially affect any program which has been undertaken under the provisions of the Soil Conservation Act,
  2. To hold hearings thereon and to report to the President

TARIFF ADJUSTMENTS

To investigate—
1. Upon request of the President;
2. Upon resolution of either or both houses of Congress,
3. Upon own motion; and
4. For good and sufficient reason, upon application of interested party, differences in costs of production of domestic and like or similar foreign articles.

To hold public hearings.

To adopt procedure and appropriate rules.

To report results with findings to President.

To specify change necessary to equalize difference in production costs—
- *a)* By changes in duties with 50 per cent limitation of increase or decrease (including any necessary change in classification).
- *b)* By change to American selling price as basis for ad valorem rates of duty.

UNFAIR PRACTICES IN IMPORT TRADE

To investigate—
- Alleged unfair methods of competition and/or unfair acts in importation and sale

To hold public hearings.

To send copy of findings of violation of section to importer or consignee.

To hold rehearing on judicial mandate or own initiative and modify findings

To report final findings with recommendations to the President of exclusion or nonexclusion of merchandise from entry.

DISCRIMINATIONS AGAINST UNITED STATES TRADE

To keep informed of discriminations by foreign countries against the commerce of the United States and to make reports thereof with recommendations of exclusion or nonexclusion to the President.

CO-OPERATIVE ASSISTANCE

To co-operate reciprocally with—
- Treasury Department
- Commerce Department
- Federal Trade Commission
- Other governmental agencies—
  - Agricultural Adjustment Administration
  - National Recovery Administration
  - Interior Department—1934
  - Office of Special Adviser to the President on Foreign Trade—1934
  - War Department—1934

would retain all powers now enjoyed by the Tariff Commission but in addition would be authorized to "study all factors, directly or indirectly affecting the balance of international payments between the United States and foreign nations and submit recommendations to the Congress and to the President from time to time respecting such changes and adjustments in law, regulation, or procedure as in its opinion may be necessary to achieve certain" policies of Congress. These policies included the maintenance of a high level of employment in industry and agriculture; the formulation of programs of foreign activities which would fit in with domestic programs; the attainment of a better balance between our exports and imports, including the export of capital and capital goods in such a way as to reduce any necessity for foreign loans by our government; the avoidance of abnormal gold purchases; the bringing about of greater efficiency in government agencies having to do with foreign commerce and travel; and the encouragement of international travel.

SUMMARY

From 1791 to 1894, or something over one century, the tariff constituted the largest source of federal income except for a very few years. After 1894, its importance began to decline until in the thirties and forties when government expenses skyrocketed, it became a very minor source. Our tariff, prior to 1934, had its inception in the Ways and Means Committee of the House of Representatives which held public hearings, framed the bill along party lines, and then steered it through the House. From there it passed to the Senate which referred it to the Senate Committee on Finance which likewise held hearings and reported the bill with changes to the Senate. The Senate made whatever amendments the members saw fit and passed the bill. A conference committee representing both houses then ironed out the differences. The bill then went to each house for passage and to the President for his signature.

The Reciprocal Trade Agreements are made differently. They are based on existing tariff rates which serve as a point for bargaining. Specially constituted committees study trade relations with a particular country and then frame two lists of commodities—the one consisting of items on which we might ask concessions; the other consisting of items on which the other country is likely to demand concessions. Public hearings are held. Afterward, negotiations are carried on with the other country. The agreements are of the mutual most-favored-nation type, and the concessions are generalized to all countries not discriminating against us.

The United States Tariff Commission is a valuable investigative and advisory force in the field of tariffs and tariff making. It has published numerous reports on competitive productive conditions at home and abroad and stands ready to make such investigations as Congress may direct.

QUESTIONS FOR DISCUSSION

1. What role has the tariff played in the revenue system of the United States? How do you account for the decreased importance of the tariff in this respect since 1894?
2. Trace the course of a tariff bill from the time it is framed by the Ways and Means Committee of the House of Representatives until it is signed by the President and becomes an act.
3. Is the tariff primarily an economic or a political problem? Explain. What light does the Schattschneider study throw upon this question?
4. Sketch the administrative organization that is provided for the execution of reciprocal trade agreements.
5. Trace the development of a hypothetical reciprocal trade agreement, showing the roles played by each of the administrative agencies mentioned in your answer to Question 4.
6. Describe the organization and functions of the United States Tariff Commission. What factors, in your estimation, would stand in the way of the establishment of a tariff commission with full rate-making authority?

CHAPTER XVI

PROTECTION, TARIFF FOR REVENUE, AND FREE TRADE

Introduction. In considering arguments for and against protective tariffs, tariffs for revenue, and free trade, it is not at all easy to deal "logically" with "arguments" that are not necessarily logical or addressed to logical people or people capable of weighing the facts but are addressed rather to partisans who already "believe." Many arguments are not even questioned seriously except by men in academic circles whose opinions are turned aside sometimes contemptuously by the so-called hardheaded and practical businessman. We have already mentioned the fact that people are born with an attitude toward the tariff in so far as they are members of a Republican or a Democratic family. This might be illustrated with the old story about two men who met in a smoking room. During the course of the conversation it became apparent that one was a rabid Republican and the other a loyal Democrat.

"Why are you a Republican?" asked the Democrat.

"For the simple reason," answered the Republican, "that my father was a Republican and that his father was a Republican, too."

"But that isn't at all logical," complained the Democrat. "Suppose your father had been a burglar and your grandfather before him had been a burglar, would that justify you in being a burglar?"

"Of course," exclaimed the Republican, "with such a heredity I would be a Democrat." (The same story can be told with the parties reversed!)

Tariff as a Matter of Time and Place. Tariff development in each country necessarily accompanies the industrialization of that country. Since this industrialization occurs at different times and to a different extent in different countries, it follows that the tariff controversy reflects this situation. Accordingly, there are no general tariff arguments that can be applied without adaptation to time, place, and degree of development. It is not at all difficult to find in the world today examples of different countries going through the stages very similar to those discussed by Friedrich List. This means then that as we look at the different tariff systems we find the different attitudes and different arguments employed.

We no longer have in the United States what might be called a "tariff controversy." It is true that the Republicans and the Democrats still differ on the question of the tariff reciprocity and so on, but it is no longer the

violent difference such as existed in this country up to about 1900. The reason for this is that we do not have a free trade party and that the major difference between the two parties is the question of whether the revenue tariff should incorporate protective features or whether protection should be incidental to a revenue program. It is interesting, for example, to go back to the old days and read some of the arguments, not only of men who enjoyed scientific standing, but also of those who were waging political campaigns. They spared neither bitterness, sarcasm, nor ridicule in attempts to justify or deride the protectionist policy or the free trade or revenue policy. William Graham Sumner, in his book called *Protectionism, the Ism Which Teaches That Waste Makes Wealth,* published in 1888, has this to say about the subject:

> Protectionism seems to me to deserve only contempt and scorn, satire and ridicule. It is such an arrant piece of economic quackery, and it masquerades under such an affectation of learning and philosophy, that it ought to be treated as other quackeries are treated.
>
> Protectionism arouses my moral indignation. It is a subtle, cruel, and unjust invasion of one man's rights by another. It is done by force of law. It is at the same time a social abuse, an economic blunder, and a political evil. The moral indignation which it causes is the motive which draws me away from the scientific pursuits which form my real occupation, and forces me to take part in a popular agitation.[1]

In brief, then, we may say that the subject of the tariff today has assumed the nature of a debate on difference of degree rather than difference of kind. There is more willingness on the part of both Republicans and Democrats to adopt a flexible attitude, perhaps a more opportunistic attitude, toward the tariff.

The Terms Defined. The term "protection" may be defined as the system of fostering home industry through the use of high rates of duty sufficient to shut out competing goods of foreign nations. It usually involves free trade or a very low revenue tariff on the importation of raw materials needed for the production of manufactured articles. It carries with it the implied promise that, although initially the protected commodity will sell at a higher price, which will constitute a burden on the do-

[1] Sumner, William Graham, *Protectionism, the Ism Which Teaches That Waste Makes Wealth* (New York: Henry Holt & Co., 1888), pp. vi, vii, and viii. The use of sarcasm and ridicule in the tariff controversy by others has never quite equaled the imaginary petition drawn up by Frederic Bastiat, the French economist, in 1847. It purported to be a "Petition of the Manufacturers of Candles, Tapers, Lamps, Chandeliers, Reflectors, Snuffers, Extinguishers, and of the Producers of Tallow, Oil, Resin, Alcohol, and, in General, Everything Connected with Illumination." It was addressed to the members of the Chamber of Deputies. The essence of the plea was that the sun was a foreign competitor and if shut out by government action would bring prosperity to the petitioners. The full text may be found in Taussig, F. W., *Selected Readings in International Trade and Tariff Problems* (Boston: Ginn & Co., 1921), pp. 311–15.

mestic consumer, there will develop ultimately, a new industry. This new industry will be a national asset. Somewhere along the line it will outgrow the need for a high degree of protection. Competition between the firms comprising it will result in lower prices which will offset the earlier burden of higher prices. As the industry grows, it will supply more and more of the domestic market and finally produce a surplus for export. Protection also recognizes the fact that duties other than those prohibitive in nature can be relied upon to bring in a substantial portion of the public revenue needed by the government. For example, prior to World War I the problem of financing our federal government was comparatively simple because the tariff brought in such a large portion of all that was needed. This situation was equally true under the Democratic as well as the Republican administrations. In those days there was no need for a Federal Income Tax or for numerous other taxes that we have today.

The term "free trade" is frequently misunderstood. A free trade policy is nothing more than the application to international trade of the laissez faire policy in domestic affairs. In a very true sense, the laissez faire policy was the outgrowth of reasoning about international trade, and it may be well for those who are impatient at the failure of free trade to assert itself in international affairs to remember that laissez faire has never even won world-wide and general acceptance in domestic matters. Yet the latter freedom is necessary as a basis for the former. As we have pointed out before, the original laissez faire ideal meant not only that the government should leave internal business as free from restriction as possible but should also grant freedom to the passage of persons and goods from one place to another. Now just as laissez faire within a country does not mean, and never did mean, the complete absence of restriction, so free trade does not mean the complete absence of restriction. In other words, the use of a tariff for revenue purposes, even though the yield might prove tremendous, is not at all inconsistent with free trade. Perhaps it might be well to remark, then, that the term "free trade" is almost as misleading in its popular connotation as the comforting word "protection." Professor Graham makes the appropriate comment that, if some other term had been used instead of protection, discrimination, for example, that it might have proved less popular in the United States. The term "discrimination," he points out should help us recognize that a protective tariff "affects adversely not only the foreign producer of the commodities concerned but also the great bulk of domestic producers who cannot be protected, as well as practically all domestic consumers, we should then regard the matter with clear eyes instead of through a fog of unwarranted hope, fear, and favorable prejudice. The case turns entirely on possible eventual compensations of the present loss."[2]

The term "revenue tariff" suggests that a government can raise a sub-

[2] Graham, Frank D., *Protective Tariffs* (New York: Harper & Bros., 1934), p. 16.

stantial portion of its fiscal needs by means of an imposition of a low tax, perhaps 5 per cent, on imports. Frequently these imports are of the type not produced in the country. A country in the temperate zone might, for example, place a duty on crude rubber, coffee, or even on minerals and metals not found within its borders without any thought of producing such items. The case, however, is not as clear when a revenue tariff considerably higher than 5 per cent is placed on other classes of commodities and goods. Such rates unquestionably involve a measure of protection. It is for this reason that no clear line of demarcation can be drawn between the rates imposed by Republican and Democratic administrations on different commodities. Then, too, there is another element which enters the picture. The Democrats have been loathe to remove protective rates too suddenly because they have felt (and very properly so) that it would not be fair to industries established behind the shelter of high rates to be left suddenly at the mercy of competition with foreign goods which could be expected to come in as soon as the barrier was removed. We shall say more about this when we speak of the so-called vested interest argument in behalf of the tariff.

The Nature of the Arguments. The tariff arguments have grown up over the years and have been the product of the thinking of many different men who have lived in different countries and under varying conditions. As a result we cannot look for the same arguments except under different phraseology. The tariff arguments were more earnestly advanced years ago because the system was still in its formative stage. Party lines were not finally drawn. Arguments which could win over new recruits and also bring new states under a party banner, particularly valuable because of our electoral system, were pushed with more enthusiasm. Since that time, the arguments have not been used to convince Democrats to leave their party and support a high tariff but rather to strengthen the beliefs of the Republican voters who already believed in a protective tariff. Many of the arguments have become respectable because they have been repeated so often and by so many popular heroes.

Political arguments cannot be too detailed or too factual. They must be of the type that "sink in" at once and be so simple that they can be repeated by the layman. They must be as obvious as the argument of the winner of that debate which took place in a small southern town. The subject was: Resolved: that the sun is more important than the moon. The negative speaker won the debate by pointing out the obvious and indisputable fact that the sun shines in the daytime when it is light anyway, whereas the moon shines at night when it is really needed.

The Economist versus the Businessman. There is perhaps no other policy on which the economist and the businessman disagree so thoroughly as the question of a high as opposed to a low tariff. If a personal note may

be permitted, this was brought home to the author very strongly on the occasion of a speech explaining the reciprocal trade agreements in which he took occasion to fortify his position by refuting some of the familiar protectionist's arguments. A prominent businessman connected with a branch of the steel industry was then called upon to give his reaction to the speech. The exact words he used in opening his remarks were these: "I wish to say that I disagree with everything the previous speaker has said."

It is true that most economists have a preference for free trade. This does not mean, however, that all economists belong to the Democratic party because, like most other things in life, there are many considerations which enter into a man's political affiliations. It does mean, nevertheless, that so far as economic reasoning goes and in so far as the qualifying phrases so dear to the economist are allowed, a convincing case can be built against granting permanently high protection to industry. This viewpoint is strengthened when one considers the way in which the tariff has been framed in this and other countries. It is proper to remark, moreover, in the same spirit that prompted Adam Smith to say that "defense is more important than opulence" that there are considerations other than economic ones which enter into the tariff problem—considerations which the politician, statesman, and businessman understand and frequently are better able to cope with than the economist. This does not mean that the economist's efforts to build up a case for free trade is like building a straw man who can easily be knocked over, but it does mean a recognition, which too few economists have been willing to give, to the realities, emergencies, and selfish interests met in everyday life. It also means that free trade and protection are not principles of economics but are policies and as such can never be proved right or wrong but only sensible or foolish in a given situation. Professory Ely has said that the tariff policy cannot be controlled merely by a consideration of dollars and cents but may at times be employed for other purposes such as the promotion of industries needed in time of war, the offsetting of foreign tariffs, and the granting of temporary stimulus to industry.

Under the caption "Academic and Popular Judgments on Commercial Policy," Professor Graham attempts to explain the contrast between attitudes of economists and "typical" businessmen:

> Nowhere, perhaps, is this contrast between the judgments of typical business men and those of economists more sharply drawn than in the field of commercial policy. That, for instance, an existing industry should be injured or eliminated by foreign competition is a bitter pill for the ordinary business man to swallow; yet, to the economists, it will frequently appear as a condition of the success of some alternative and better industry and of enlarged general prosperity.

On a false analogy, again, with the affairs of a private business organization, the business man will think that a persistent "favorable" balance of international payments (which seems to him the national counterpart of profits in his own business) is indispensable to the economic happiness of his country. The economists know, however, that such a balance is not only impossible but that it would be undesirable if it could be achieved.

To the business man, exports are an end in themselves and imports a more or less necessary evil. To the economist, on the contrary, imports are the end and exports but the means of acquisition of as large a volume of imports as foreigners can be induced to offer in exchange for the exported goods.

The business man will ordinarily put the stigma of disloyalty upon a compatriot who buys finished goods abroad on considerations of price and quality alone. The economist, however, is alive to the fact that every purchase of foreign goods inevitably creates a market for future, or is the correlative of the past, exports from his own country, and that, in general, restraints upon freedom to purchase in the most favorable market will injure not only the consumers but also export producers in the country imposing the restrictions.

The business man (and with him the laborer) looks upon imports as a cause of unemployment and of a lowered scale of living, but rigorous logic leads the economist to the conviction that, in the long run, restrictions upon imports provoke at least as much unemployment as they banish and that, far from preventing a fall in standards of living, they are a cause thereof.

Finally, the business man (in the United States at any rate) thinks of low foreign wages as a cause of low money costs of production, but to the economist it is evident that such low wages are a result of low productivity and that they are, as often as not, accompanied by very high money costs per unit of output.[3]

Tariff Arguments Prior to 1860. The tariff arguments, pro and con, prior to 1860 were essentially those of Adam Smith and his followers in England and on the Continent, Alexander Hamilton, Albert Gallatin, Friedrich List, and some early economists in the United States, some interested business leaders, and such well-known figures as Daniel Webster and Henry Clay. Their viewpoints have for the most part been covered in the previous chapters, but it will be worthwhile, here, to summarize their case for and against protection.

The case against protection, that is, the case for free trade runs like this: Man is born with an innate desire to truck, barter, and exchange. If left free from an excess of government restriction, he will engage in that work, occupation, or business for which he is best suited. As a result, he will do what is best for himself and at the same time, providentially, what is best for society. In seeking to improve himself, man realizes the benefits of subdivision of labor and no longer seeks to supply all his needs but specializes in the task for which he is best fitted and, with his product or

[3] *Ibid.*, pp. 3–5. I have taken the liberty of separating the quoted material into paragraphs.

service, obtains in the market place all that he needs. This principle, so the argument goes, is equally valid when applied to nations. Some nations are so endowed by nature as to produce types of food and other products much more easily than others, and it is good business to let each nation specialize and obtain in exchange in the world market the things it needs with the minimum of restrictions and political barriers. The benefits of this international division of labor constitute the argument for free trade—better products at a cheaper price, better understanding between the nations of the world.

Unfortunately, all nations do not realize these benefits of free trade, or they cannot for one reason or another put free trade into practice. Recognizing this and such forces as sovereignty, international friction, and warfare, a nation favoring free trade may make such departures from it as will strengthen her in time of war. Various encouragements to bring about the establishment of such needed industries are recognized—the tariff, bounties, premiums, drawbacks, and so on. The use of restrictions are also countenanced as a bargaining weapon to bring about the removal of another nation's barriers. Generally, the use of a revenue tariff is also permitted.

The advocates of the protective tariff grant the case of the free trader as an ideal—a fact which is too frequently overlooked. But as realists they maintain that free trade will work only in a world of free trade and that so long as national policy of one nation employs the tariff and other restrictions, it is necessary for others to do likewise. Accordingly, they take the exceptions allowed by the free traders and build them into rules.

Hamilton and List led in this work. They found that the leadership of a nation in producing a particular product was not always the result of natural advantages but of an early start, a supply of capital, the presence of skilled laborers, and so on. They taught that behind a tariff barrier, a young nation might build up an industrial and commercial civilization with all the advantages belonging to such an economy. Perhaps it is fair to say that the theory of protection is something of an ideal, too, because it calls for an ultimate reduction of barriers after its objects have been fulfilled. It enjoyed this status of an ideal in the United States until about 1890 when it became a permanent policy and influenced the rest of the world to follow along the same lines.

The free trader does not, however, grant the protectionist's case. On laissez faire grounds, he cannot countenance forcing or directing the labor and capital of a nation into channels which they would not normally have taken if left free. In short, he cannot forgive the wastefulness of the system with its burdens and temptations to lobbying and corruption.

The Arguments Found in Party Platforms: 1860–1940. The reader has already noted the arguments appearing in the party platforms printed

in Chapters XII, XIII, and XIV. These arguments may be gathered together and classified under the following classifications:

1. The wages and standard-of-living argument
2. The fostering-of-industry and infant-industry argument
3. The home-market argument
4. The vested-interests argument
5. Miscellaneous arguments

1. The wages and standard-of-living argument has appeared in some form in every Republican platform since 1872 except for the year 1900. Listed below are the pertinent exerpts and the year in which the argument made its appearance in the platform.

The protective tariff was viewed as an aid—

1872 To secure "remunerative wages to labor"
1876 "To promote the interests of American labor"
1880 "To favor American labor"
1884 As a "protection to the rights and wages of the laborer," whereas "the system of the Democratic party . . . . would degrade our labor to the foreign standard"
1888 "To check imports of such articles as are produced by our people, the production of which gives employment to our labor"
1892 In levying duties "on all imports coming into competition with the products of American labor"
1896 To uphold "the American standard of wages for the American workman" and to "protect American labor from degradation to the wage level of other lands"
1908 "To maintain the high standard of living of the wage-workers of this country, who are the most direct beneficiaries of the protective system"
1912 To protect "our workingman against competition with cheaper labor abroad, thus establishing for our wage-earners the American standard of living," since a tariff for revenue only "would destroy many industries and throw millions of our people out of employment
1916 To afford "tariff protection to American industries and American labor." The Democratic Underwood Tariff, had it not been for the war, "would long since have paralyzed all forms of American industry and deprived American labor of its just reward."
1920 To insure "preservation of the home market for American labor, agriculture, and industry"
1924 To assure American labor "a return sufficient to perpetuate American standards of life"—and to "support the high American economic level of life for the average family and to prevent a lowering of the levels of economic life prevailing in other lands"
1928 To give him a "fuller employment at higher wages," and to safeguard the "standards of living and general comfort and well-being of our

people." Accordingly, "It is inconceivable that American labor will ever consent to the abolition of protection, which would bring the American standard of living down to the level of that in Europe."

1932 To guarantee that "no pretext can justify the surrender of (the home market) to such competition as would . . . . lower the standard of living which we have established for our workers"

1936 To "defend . . . . the American wage earner from the destructive competition emanating from the subsidies of foreign governments and the imports from low wage and depreciated currency countries"

1940 To provide "protection for agriculture, labor and industry, as essential to our American standard of living"

The gist of the wages and standard-of-living argument may now be summarized. The system of protection is favorable to the laborer in that it defends his interests and rights, gives him employment, upholds his American standard of living, saves him from falling to the lower standards of foreign workers, and keeps him from suffering from the competition of their products. There is also the suggestion in 1928 of the earlier form of the argument which looked upon the tariff not as a means of keeping up the standard but as a cause of it: under protection "the standard of living of the American people has been raised to the highest level ever known."

It is not at all strange that the Democratic platforms never made any serious effort to refute this very telling argument. That the wages paid in the United States were higher than elsewhere was a recognized fact so that the Democrats must have considered it a part of strategy not to call any more attention to a possible causal relationship than necessary. Except for a rather timid statement in 1876 that the Republican tariff should be condemned because "it prohibits imports that might purchase the products of American labor" and the sharp assertion in 1892 that "since the McKinley tariff went into operation there have been ten reductions of wages of the laboring men to one increase," there was no real indictment except in the platform of 1912. Then the high Republican tariff was charged with causing the unequal distribution of wealth, making the rich richer and the poor poorer, harming the laborer by raising his living costs. It was also asserted that: "In the most highly protected industries, such as cotton and wool, steel and iron, the wages of the laborers are the lowest paid in any of our industries." The effectiveness of this attack, however, was cancelled immediately by another statement in the same plank, "that American wages are established by competition and not by the tariff." If the Democrats denied any causal relationship between the tariff and high wages, it was hardly logical to imply that low wages had any relationship to the tariff in the iron and other industries.

At times, the Democrats seemingly endorsed the argument when assur-

ing the laborer that no revision of the tariff would overlook the differences in the wages of the United States and foreign laborers or endanger his steady and remunerative employment. In 1928 he was told that the Democratic tariff would be based on the maintenance of "a high standard of wages for American labor" and that there would be "adequate safeguards for the wage of the American laborer." This raises the question: If the high tariff is not responsible for a condition, namely, the high American standard of living and high wages, why give the assurance that a change in tariff will not lower that standard? Seemingly the framers of the plank were not sure as to whether or not a relationship existed.

2. The fostering-of-industry and the infant-industry argument has assumed various forms in the platforms and in tariff arguments generally and is rarely absent from any tariff discussion. Sometimes the tariff is credited with aiding industries already established and with helping to establish and protect infant industries. At other times it is said to bring about a diversification in industry, to hasten the development of natural resources, and to promote national defense and self-sufficiency.

In 1860, the Republicans argued that a high tariff was necessary "to encourage the development of the industrial interests of the whole country." In 1872, it was seen as a device to promote industries. In 1884, the maxim was laid down that "the largest diversity of industry is most productive of general prosperity and of the comfort and independence of the people." The "true American policy" enunciated in 1896 was the one that "taxes foreign products and encourages home industry." The "cardinal policy of the Republican party" in 1904 was "protection which guards and develops our industries." In 1916 it was said that a "wise tariff" would help our industries to become "not only a commercial bulwark but a powerful aid to national defense." In 1928, the tariff was credited with the development of our natural resources.

In 1864 and 1868, the Democrats recognized with approval the "incidental protection to domestic manufacturers . . . . as will . . . . best promote and encourage the great industrial interests of the country." But from 1876 on, the protective principle was attacked, although no attempt was ever made to refute it. It was attacked on the ground that "all custom-house taxation shall be only for revenue" (1876, 1880), and the charge was made that it "costs the people five times more than it produces to the Treasury." In 1892, its constitutionality was questioned: "We declare it to be a fundamental principle of the Democratic Party that the Federal government has no Constitutional power to impose and collect tariff duties, except for the purpose of revenue only." There were similar condemnations in 1912. These were never answered in the Republican platforms.

3. The home-market argument goes back at least to the days of Hamil-

ton. In his *Report* he had said that "a domestic market is greatly to be preferred to a foreign one." William McKinley gave an excellent statement of it in 1888:

> The establishment of a furnace or factory or mill in any neighborhood has the effect at once to enhance the value of all property and all values for miles surrounding it. They produce increased activity. The farmer has a better and a nearer market for his products. The merchant, the butcher, the grocer, have an increased trade. The carpenter is in greater demand; he is called upon to build more houses. Every branch of trade, every avenue of labor, will feel immediately the energizing influence of a new industry. The truck farm is in demand; the perishable products, the fruits, the vegetables, which in many cases will not bear exportation and for which a foreign market is too distant to be available, find a constant and ready demand at good paying prices.
>
> What the agriculturist of this country wants more than anything else, after he has gathered his crop, are consumers, consumers at home, men who do not produce what they eat, who must purchase all they consume; men who are engaged in manufacturing, in mining, in cotton-spinning, in the potteries, and in the thousands of productive industries which command all their time and energy, and whose employments do not admit of their producing their own food.
>
> The American agriculturist further wants these consumers near and convenient to his field of supply. Cheap as inland transportation is, every mile saved is money made. Every manufacturing establishment in the United States, wherever situated, is of priceless value to the farmers of the country. The six manufacturing States of New England aptly illustrate the great value of a home market to the Western farmer. These States have reached the highest perfection in skill and manufacturing. They do not raise from their own soil, with the exception of hay and potatoes, but a small fraction of what their inhabitants require and consume: they could not from their own fields and granaries feed the population which they had in 1830, much less their present population.[4]

The home-market argument was directed at first to the farmers of the country but was gradually extended to include other groups such as laborers and manufacturers. The farmer's support for a protective tariff was first asked in the platform of 1892 (although special mention was made of sheep-husbandry in 1884) when reciprocity was hailed for having opened up "enlarged markets . . . . for the products of our farms and workshops." In 1896, protection was said to put the factory "by the side of the farm," thereby making the farmer "less dependent on foreign demand and price." From 1908 on, the other groups were coupled with the farmer, and in 1920 the tariff was said to be responsible for the "preservation of the home market for American labor, agriculture, and industry." A more elaborate treatment appeared in 1924: "The tariff protection to our

[4] Taussig, *op. cit.*, pp. 541–42.

industry works for increased consumption of domestic agricultural products by an employed population instead of one unable to purchase the necessities of life. Without the strict maintenance of the tariff principle our farmers will need always to compete with cheap lands and cheap labor, and with lower standards of living abroad."

Other references were made in 1928, 1932, and 1940. In 1928, the home market was called the "farmer's major market," and it was pictured as "inconceivable . . . . that the American farmer could survive if the enormous consuming power of the people in this country were curtailed and its market at home, if not destroyed, at least seriously impaired." The platform of 1932 offered a separate plank on agriculture, mentioning the "American market," while that of 1940 attacked the reciprocal agreements in terms of threatening "the invasion of our home markets."

The Democrats have also wooed the support of the farmer to the revenue tariff. But here again, there has been no refutation of the benefits of the home-market argument. Instead, the farmer has been told that the tariff has depleted his returns (1876 and 1884), that it has aggravated the problem of farm mortgages (1892), and that the Hawley-Smoot Tariff robbed him of "his foreign markets." Only in 1912 did a really effective argument appear, and even then, little was done with it. The farmer was informed that he was selling largely in free markets but was buying almost entirely in protected markets. The Republicans made no attempt to refute this, although it subsequently became an effective Republican weapon in the tariffs of 1922 and 1930 which placed the farmer in a protected market.

4. The vested-interests argument was recognized in 1884, 1888, and 1912 by the Democrats. It is really not an argument in favor of protective tariffs at all. It is merely a justification for their retention or a caution against a sudden revision downward or utter cancellation of an existing rate. It is rather interesting that the Republican platforms did not have to make use of this argument, while its acceptance by the Democrats had the effect of putting them on the defensive. In 1884, the promise of the party not to make sudden reductions and jeopardize the labor and capital of industries which had come "to rely upon legislation for successful continuance," was almost apologetic, and the same may be said of the statement of 1888. In 1912, a distinction was made between legitimate industry and trusts whose products were to be placed on the free list.

5. There are a number of other arguments and implications in the platforms. These may be classified as miscellaneous arguments. In Chapter XII we noted the startling statement of William McKinley that from 1789 to 1888, a period of 99 years, there were 47 years of revenue tariffs and 52 years of protective tariffs and that all the disastrous years came

during the 47 years of revenue tariffs. The Republicans in 1904 saw fit to include this idea in their platform: "A Democratic tariff has always been followed by business adversity; a Republican tariff by business prosperity." It is amazing how many old-timers believed this charge. Yet it can be easily disproved.

Professor Wesley C. Mitchell, in his conspectus of business fluctuations in the United States, has typified each year beginning with 1790 with one or more characterizing phrases such as "prosperity," "depression," "revival," and so on.[5] Now if we list the years up to the time of the McKinley assertion which were designated by the term "depression," we find included 1797–1798, 1808–09, 1816, 1820, 1840–42, 1858, 1867, 1874–77, and 1884. In every one of these years tariff rates were protective. Up to 1816 the rates were moderately so, and after that date they climbed steadily through 1832. It is true that the depression of 1840–42 occurred during the period of the Compromise Tariff of 1833, but the reductions from the high level of 1832 were accomplished gradually over a decade. The depression of 1858 occurred very shortly after the tariff of 1857 was passed, hence some have sought to blame it on the "slow poison" of the act of 1846. It is questionable whether a tariff would run ten years before showing up its evil effects on a nation. Then too, although this act has been called a "free trade tariff," the rates ran as high as 100 per cent while those covering the bulk of manufactured products ran from 15 to 30 per cent. All of the other depression years mentioned occurred during the period of Republican control and under the very high protection of the Civil War and following. These rates were high even during the three years (1872–75) when a 10 per cent horizontal cut was in force. If the intervening years between McKinley's statement and the plank of 1904 be added, there is but one more depression which Dr. Mitchell calls a "deep depression" in 1894. The high McKinley Tariff, passed in 1890, preceded this collapse. Moving forward to the present time, the depressions of 1908, 1914, and that of the decade of the thirties occurred during or after a Republican administration. The Underwood Tariff had not been in effect long enough by 1914 to be reckoned as a factor. Similarly, the depression of 1921, although following a Democratic tariff, can hardly be associated with it since World War I nullified much of its significance. The depression of the thirties followed the high Fordney-McCumber Act of 1922 and the Hawley-Smoot Tariff of 1930.

The argument can be tested in another way. From 1860 to 1888 there were only four years of Democratic control. Yet during these twenty-eight years, the Mitchell table looks like this (the italics are the author's):

[5] Mitchell, Wesley C., *Business Cycles—The Problem and Its Setting* (New York: National Bureau of Economic Research, Inc., 1927), Table 32, pp. 425–37.

1860	Prosperity; recession	1875	Depression
1861	Mild depression; revival	1876	Depression
1862	War activity	1877	Depression
1863	War activity	1878	Depression; revival
1864	War activity	1879	Revival; prosperity
1865	Boom; recession	1880	Prosperity
1866	Mild depression	1881	Prosperity
1867	Depression	1882	Prosperity; slight recession
1868	Revival	1883	Recession
1869	Prosperity; monetary difficulties	1884	Depression
1870	Recession; mild depression	*1885*	*Depression; revival*
1871	Revival; prosperity	*1886*	*Revival*
1872	Prosperity	*1887*	*Prosperity*
1873	Prosperity; panic; recession	*1888*	*Brief recession*
1874	Depression		

And the years from 1888 to 1904 when the Republican platform contained the assertion showed the following:

1889	Prosperity	1897	Depression; revival
1890	Prosperity; recession	1898	Revival; prosperity
1891	Depression; revival	1899	Prosperity
1892	Prosperity	1900	Prosperity; brief recession
1893	*Recession; panic; depression*	1901	Prosperity
1894	*Deep depression*	1902	Prosperity
1895	*Depression, revival*	1903	Prosperity; recession
1896	*Recession, depression*	1904	Mild depression; revival

The eight years appearing in italics are the only ones under a Democratic administration, and, of these, the first four carried on the Republican tariff of 1883. It is hardly necessary to remark that this analysis is merely to show the danger of generalizations in tariff debate. It is sheer folly to credit one party or policy or administration with prosperity and another one with depression. Economic forces work slowly. The stresses and strains of one period assert themselves in the next. No President of the United States ever brought prosperity by taking the oath of office, and none has ever plunged us into depression by assuming office.

In 1896 the Republican platform stated that protection "puts the burden of revenue on foreign goods." This together with the comforting fallacy held at one time or another that the foreigner pays the tariff as a sort of tax for the privilege of doing business with the people of this country made it appear to be an ideal way of getting some protection and a great deal of support for the government. That the people of this country would then be contributing to the support of other countries which taxed our goods never seemed to occur to these protagonists. There was no particular reason why the advocates of a tariff for revenue could not have used this argument, too, but we find no reference to it.

The Tariff and the Trusts. Thus far we have only considered the negative arguments brought by the Democrats against the protective

tariff. These have consisted of attacks on Republican claims or an attack on the constitutionality of protection itself. The positive argument most often used has been that the protective tariff is a breeder of monopoly and that it has destroyed competition. It has been a very effective argument. As Professor Taussig has said, "The ease with which popular feeling can be roused against a monopoly has led to the frequent allegations by opponents of protection that it breeds monopoly. It was once remarked to a congressional committee of investigation that 'the tariff is the mother of all trusts,' and the aphorism became the text of many free trade sermons. Its truth is limited."[6]

In the platform of 1904, and very appropriate to the "trust-busting" era, the charge was made that certain interests through government favor (i.e., the tariff) have been able to build up great monopolies and trusts and thereby kill off competition "which was the only alleged check upon the extravagant profits made possible by the protective system."

Professor Taussig points out:

> The causes of combination are deeply rooted in the industries of modern times. They are found mainly in the development of production on a great scale; a tendency so far-reaching cannot be ascribed to a single external cause.
>
> It is true, however, that protective duties have sometimes brought combination more easily and at an earlier date, and sometimes have increased the gains from it. This is likely to be the case where the situation is ripe for consolidation within the country, but not ripe for international consolidation—a stage of development not uncommon, especially in the United States during recent years. The tendency to combination, strong and far-reaching though it is, does not work out its results automatically, irrespective of favoring causes or legislative influences, or international complications. Protective duties in the United States have been at times during the last generation a favoring cause. The trust problem is in its essence very different from that of protection—a graver problem, and of far larger social consequence—the two may interlace.[7]

Four years later the party demanded that imports of a nature to compete with trust-controlled products should be put on the free list and accused the paper interests of raising the price of pulp and paper "thus imposing a tax on the spread of knowledge." In 1912, the high tariff was named as the principal cause of the unequal distribution of wealth, and the demand for tariff reform to get away from the burdens imposed by trusts was again made.

On a priori grounds a case can be made against the protective tariff as a cause of trusts. The competition principle which keeps prices down within a country is arbitrarily prevented from working between countries, and

[6] Taussig, F. W., *Principles of Economics* (New York: Macmillan Co., 1939), Vol. I, p. 522.

[7] *Ibid.*

it may be alleged that large producers can obtain control of the domestic market and charge monopoly rates. The question has never taken the form whether a tariff has contributed to the growth of trusts (one that probably can be answered in the affirmative) but whether the tariff has been the cause of trusts.

The T.N.E.C. Report. The report on *Industrial Concentration and Tariffs*,[8] issued as a study for the Temporary National Economic Committee, under the date of August 26, 1940, takes up the relationship between the tariff and monopolistic elements in industry. Its author, Dr. Clifford James, approached his problem with certain criteria with which to recognize monopolistic elements. One was the supplying of a preponderant share of the output by a few producers especially when the industry has experienced mergers and similar forces making for concentration. Another was the frequency and magnitude of price changes for a given commodity over a period of time as contrasted with commodities recognized as competitive—a small variation in price in spite of a large change in output suggesting monopoly. A third element was the employment of certain types of trade practices ordinarily associated with monopoly. He recognized that all of these may appear in industries not enjoying a protected position, but he took their presence in a protected industry to justify investigation.

Using the *1937 Census of Manufactures,* he selected 1,807 products as a sample. They represented 14 of the 16 industries classified and 100 of the 350 industries in these classes, and they accounted for slightly more than one-half of the total value of all the products. The percentage of each product supplied by the largest companies was calculated for each of the 1,807 products and became, in turn, the indexes of industrial concentration and the basis for dividing the products into three groups. The first group consisted of products 75 per cent or more of whose value was contributed by four companies; the second group comprised those 50 to 74 per cent of whose value was contributed by four companies; and the third group was made up of products 49 per cent or less of whose value was produced by four companies.

The conclusions reached, subject to acknowledged limitations of time, method, data, and so on, were as follows:

> The analysis of the sample of 1,807 products indicated that many duties on imports were not highly restrictive. Only a few products, however, in the sample were free of duty, namely, 2.5 percent. Of the remainder, 12.2 percent were subject to duties of 60 percent or more (ad valorem or equivalent); 36.5 percent were subject to duties of 30 to 59 percent; and 47.6 percent to duties of 29 percent or less. In these three dutiable groups, duties probably had little or

[8] Monograph No. 10 (Washington, D.C.: U.S. Government Printing Office, 1940).

no effect on imports for approximately half of the total value of each group in 1937. Duties seemed to be highly restrictive on imports for 50 percent of the high-duty group; for 7.5 percent of the intermediate group; and for 12.7 percent of the low-duty group. For the remainder of each group the duties were probably moderately restrictive.

A classification of the sample according to the three industrial concentration groups and the restrictive effects of duties showed that there was no close connection between high-concentration and restrictive tariffs. In the high concentration group (75 or more) duties probably had little or no effect on imports for 59 percent of the group. On the other hand, in the low-concentration group (49 or less) duties probably were not restrictive on imports for 40 percent of the group. Stated differently, duties were restrictive for only 31 percent of the high-concentration group but were restrictive for 60 percent of the low concentration group.[9]

Another part of the study was directed to the group of 317 products, each with a concentration index of 75 or more, representing about 90 per cent of the value of the products in the high concentration group. Only 12 products were duty free. The rest paid duties—some paying 60 per cent or more ad valorem or its equivalent. No close connection was found between the height of the duties and their restrictive effects, and none was found between a high degree of industrial concentration and restrictive tariffs. But "the analysis does show that for a substantial portion of the products, removal or reduction of restrictions on imports would at least partially offset the monopolistic elements in domestic commerce."[10]

A fair conclusion from the study would seem to be, then, that tariff rates are a factor in monopolistic enterprise. But their causal relationship is by no means indicated. To prove such a fundamental relationship it would be necessary to go back into the history and formation period of each monopolistic enterprise and trace the growth of it in terms of costs and tariff rates year by year—a task obviously impossible of accomplishment. Yet merely to say that the tariff is one element is not very helpful. It would be possible to take any one factor—patent rights, trade-marks, copyrights, raw material control, locations, and whatnot—and argue that the removal of any one of them would conceivably cut into monopoly profits.

Other Arguments in Favor of Protection. There are many other forms in which the arguments for protection appear. Protection is said to have proved itself historically; that it retards the too rapid action of diminishing returns and the exhaustion of superior soils or other natural agents by promoting diversification instead of specialization; that it at-

---

[9] *Ibid.*, pp. 7–8.

[10] *Ibid.*, p. 28. For conclusions regarding particular industries or groups of industries, consult the monograph. See also a pamphlet, "Criticism of T.N.E.C. Monograph No. 10," a statement of the American Tariff League, New York City, June, 1941.

tracts capital and skilled workers from other countries; that it supplies abundant revenue which is easy to collect and willingly paid by those who do not realize the burden it imposes; that it develops dumping of foreign goods in the domestic market; that by checking imports it checks the outflow of specie; that it increases the production powers of a country; that it preserves an upper class in a country in much the same way that the corn laws helped the English noblemen; that it lowers prices by increasing home competition; that protection equalizes the cost of production here and abroad.

Professor Taussig has laid down the general principle that "most of the common arguments in favor of restrictions upon trade, by protective duties or otherwise, are fallacious."[11] This statement is not made in a spirit of intellectual smugness, and it does not preclude particular arguments enjoying a certain potency under given conditions. Professor Graham has offered a general conclusion, moreover, which is helpful in placing the various arguments for protection in their proper place.

> Let us but clearly grasp the facts:
>
> 1. That national prosperity is essentially dependent upon the production of the home population and is not adversely influenced by the competition of foreign countries;
> 2. That prices and wages, whether at home or abroad, are, when taken separately, of no relevance to prosperity but that the significant thing is the relationship between them;
> 3. That wages can be high relative to prices only as a result of high productivity;
> 4. That low wages are a mark of low productivity and, therefore, of rather high money cost of production;
> 5. That exports and imports go hand in hand unless, indeed, we give our exports away or receive our imports as gifts from foreign countries, in which case we should be respectively lowering and raising our real incomes;
> 6. That buying dear and selling cheap is bad business for a nation as for an individual;
>
> and we shall have banished the illusion that we can be made prosperous by fiat.[12]

Other Arguments for Free Trade and against Protection. Free trade would do away with uneconomic industries which now operate behind tariff shelter at an expense to the domestic consumer. Infant industries never grow up, and large profits result for some producer. This increases the cost of living and encourages class conflict. Protection is charged with promoting international ill will and invites retaliation, wars, and other

[11] Taussig, *Principles of Economics,* p. 508.

[12] Graham, *op. cit.,* pp. 120–21.

animosities. This sometimes results in the migration of factories to other countries. The free trader points out, further, that cutting off imports results in cutting off exports; that there are ethical objections such as undervaluation surrounding a protective tariff; that a tariff is never scientific since it results from compromise.

In addition to answering the arguments of protectionists and criticizing protection, the free trader has telling arguments of a positive nature. He claims that free trade will insure the maximum productivity of labor, bring about higher real wages, lead to greater territorial division of labor, promote the interdependence of nations, and encourage peaceful relationships. He feels that free trade will probably come sooner through a dissatisfaction with protection than through the logic of free trade.

SUMMARY

Protection is the system of fostering home industry through the use of high rates of duty sufficient to shut out or discourage competing goods of foreign nations. It usually involves free trade or a very low revenue tariff on the raw materials needed for the production of manufactured articles. It carries with it the implication that, once the industry grows up, the rates will be lowered.

Free trade is the application of the policy of laissez faire to international trade. It does not mean the absence of restrictions and is not inconsistent with tariff rates for revenue. A revenue tariff is a low tax on imports, the purpose of which is to help finance government.

Tariff arguments can be analyzed under five headings—the wages and standard-of-living argument; the fostering-of-industry and the infant-industry argument; the home-market argument; the vested-interest argument; and miscellaneous arguments. They have been couched in political terms to appeal to each segment of the voting population.

The tariff has been called the "mother of trusts" and has been both credited and blamed for United States prosperity and depression. None of these can be proved, although they have been repeated time and time again.

QUESTIONS FOR DISCUSSION

1. Define "protection" and "free trade." Is the issue between the two policies ever absolute, or do they represent primarily differences of degree? Explain.
2. Account for the difference between the businessman's and the economist's attitude toward the tariff.
3. Outline the case for free trade, pointing out the assumptions on which it is based. What political factors condition the purely economic considerations?
4. Discuss the wages and standard-of-living argument for a protective tariff.

Criticize this argument by pointing out the difference between high wages and high labor costs.

5. Summarize the infant-industry argument for protective tariffs. In what respect is this argument just as "idealistic" as the argument for free trade? Evaluate the infant-industry argument.
6. To whom is the home-market argument for protection addressed? Explain. Criticize the argument.
7. To what extent do you think that the vested-interests argument for tariffs is valid?
8. Discuss the relationship between tariff policy and the business cycle.
9. What conclusions can be drawn from the T.N.E.C. study concerning the relationship between the protective tariff and the development of monopolies?

PART III

THE TARIFF AND COMMERCIAL POLICIES IN EUROPE AND ASIA

CHAPTER XVII

POLICIES OF EUROPEAN COUNTRIES UP TO THE PERIOD OF WORLD WAR I

Introduction. In this chapter we shall consider at some length the development of tariff policies in Great Britain, France, and Germany up to the period of the first World War. Some passing attention will also be given to the use of the tariff in Russia, Italy, Switzerland, and the Netherlands.

THE TARIFF POLICY OF GREAT BRITAIN

The Influence of Adam Smith. We have already seen something of the influence of Smith's writings in the field of laissez faire and freer trade. The practical effect in England was much clearer than in other countries, although, as pointed out before, Smith was not aware of the strength of the reaction against mercantilism. Let us survey the progress of this movement. From 1773 to 1792, the government did not find it necessary to interfere in the corn trade, and it was noticed that prices remained far more stable than during strict control of exports and imports. In 1784, the duty on tea was reduced to 12 per cent, thus bringing to an end a smuggling trade that is said to have brought in two-thirds of the tea used in Britain. Two years later, the younger Pitt negotiated a treaty with France (England's natural enemy from the mercantilists' point of view) which abolished many of the protective duties hitherto existing between the two countries. France reduced duties on British woolens and cottons, hardware, leather, and porcelain. England, in turn, made concessions amounting to half the former rates on French wines, brandies, oils, glass, and certain manufactured goods. "A hole once made in the barriers of Protection," Professor Warner writes, "the water flowed in, the flood rose, and bit by bit the old duties crumbled away and disappeared."[1] That this treaty was negotiated by Pitt, an admirer of Adam Smith, has caused some to conclude that Smith's free trade doctrine bore immediate fruit. Lipson approaches the idea with caution. "The younger Pitt," he remarks, "may have been fortified in his opinions by the *Wealth of Nations;* but there appear to be no valid grounds for the common assumption that the beginnings of free trade were due to the influence of Adam Smith."[2]

[1] Warner, George Townsend, *Landmarks in English Industrial History* (London: Blackie & Son, Ltd., *cir.* 1893), p. 334.

[2] Lipson, E., *Economic History of England* (London: A. and C. Black, Ltd., 1931) Vol. III, p. 114.

More recently, certain interesting light has been thrown on this treaty. Bowden, Karpovich, and Usher point out that the "French sources show that the treaty was the outcome of a deliberate attempt on the part of the physiocrats to force their liberal ideals upon an unwilling and unconvinced public." The French, moreover, may be said to have forced the issue in May, 1785, by increasing rates against England; otherwise the British government would never have negotiated the treaty. At any rate, the treaty was short-lived, having been denounced by the French in 1789.[3]

Rise of the Manchester School. In 1787, the whole tariff system was reconstructed into a unified whole. Its valuation system which had been based on a rate list dating from 1660 was modernized. The next significant events occurred in 1820. In that year a London Merchants' Petition to the House of Commons, worded by Thomas Tooke, was presented. It stated the position of many merchants that "freedom from restraint is calculated to give the utmost extension to foreign trade, and the best direction to the capital and industry of the country." In the same year, the Manchester Chamber of Commerce was founded. Its members took the position that "to indulge an expectation that other countries will take the manufactures of this kingdom without our receiving in return such articles as they produce, is delusive and injurious to our best interests." A Manchester school of thought grew up. It was wedded to the ideas of Smith and advocated laissez faire strongly. Its views were carried over to the Continent and exerted a considerable influence, while at home it figured significantly in the repeal of the corn laws.

Downward Revision. In 1822, the whole shipping code was revised and three hundred obsolete statutes were repealed. A year later William Huskisson, though not a free trader, put through the Reciprocity of Duties Act which authorized the government to enter into agreements with other countries removing the restrictions on foreign trade contained in the navigation acts in return for similar concessions. Shipbuilders found that, contrary to their piteous predictions of ruin, the industry grew at a considerably more rapid rate after the treaties were signed with Prussia, the Netherlands, and Denmark in 1824; with the Hansa towns in 1825; with France in 1826; and with Austria in 1829. In 1830 concessions were also granted to the United States.

The Huskisson ministry, faced with 1,500 statutes prohibiting, regulating or restricting trade, also repealed various prohibitions on the importation of foreign manufactured silks and bounties on the exportation of similar goods. Import duties on wool and timber were reduced on the assumption that a rate of 30 per cent ad valorem should be adequate for protective purposes. Reductions were also made on sugar, tallow, hides,

[3] Bowden, Witt; Karpovich, Michael; and Usher, Abbott Payson, *An Economic History of Europe since 1750* (New York: American Book Co., 1937), p. 322.

French wines and brandies, coffee, tea, bacon, cheese, and butter. Virtually all restrictions on the export of goods were abolished at this time.

The downward revision continued. The act of 1833 abolished all duties on 58 enumerated articles and reduced rates on 700 other items. In 1840, a Parliamentary committee issued a momentous report which condemned the British tariff setup charging that its various elements lacked unity of purpose and conformed to no general principles. Although enumerating 1,150 rates and classifying numerous other items subject to duty, 94½ per cent of the total revenue from the tariff came from 17 articles while a total of 46 items produced 98⅔ per cent of the entire revenue.[4] The yields of some articles were absurd. A duty of 28*s.* 6*d.* on 1,000 crystal beads produced a revenue in 1839–40 of 1*s.* 7*d.*; the 25 per cent duty on extract of vitriol, only 12*s.* 3*d.*; that on starch of £9 10*s.* for a hundredweight enriched the treasury by 1*s.* 9*d.* (about 42 cents), and so on.[5] This was the situation which faced Sir Robert Peel as prime minister. Peel was not an advocate of free trade, but circumstances made him responsible for the important law of 1842. Working on the general principle that the cost of living should be lowered, he reduced the duties on raw materials to 5 per cent ad valorem or less, those on partially manufactured goods to 12 per cent, and those on manufactured articles to rates not exceeding 20 per cent. That the modification of 650 items including the sweeping away of almost 500 involved a great deal of controversy, is attested to by the remark of Gladstone some years later—that he had been concerned with four tariff revisions, those of 1842, 1845, 1854, and 1860 but that the revision of 1842 was six times more troublesome than all the others put together.[6]

In 1845, rates on 450 items were further reduced, and the next year witnessed the repeal of the corn laws—a most significant free trade victory which we shall examine presently. The Gladstone ministry repealed the remnants of the navigation acts and removed duties on 123 articles while lowering those on 133 others. Semimanufactured goods were admitted free, while manufactured goods were not to pay more than 10 per cent ad valorem. By 1860, Britain had abolished all except 48 duties. These were essentially for revenue purposes, but, even of this number, only 15 yielded any substantial sum—spirits, sugar, tea, tobacco, wine, coffee, corn, currants, timber, chicory, figs, hops, pepper, raisins, and rice.[7]

The Cobden-Chevalier Treaty. The ultimate free trade victory is associated with the Cobden-Chevalier Treaty of 1860 with France. Here

---

[4] Morley, John, *The Life of Richard Cobden* (Boston: Roberts Bros., 1890), p. 158.

[5] Bastable, C. F., *The Commerce of Nations* (London: Methuen & Co., Ltd., 1923), p. 51.

[6] Morley, *op. cit.*, p. 160.

[7] Bowden, Karpovich, and Usher, *op. cit.*, p. 359.

again, the driving force back of this treaty was French influence. Chevalier, it has been found, needed this treaty to help him initiate a reform in France, though the apparent initiation of the plan would best be left to Cobden who was lukewarm only in the earlier stages.[8] Under its provisions, France removed all prohibitions against English goods and reduced her protective rates to a 30 per cent level until 1864, after which it was to be 24 per cent. The treaty, which remained in force until 1880, also contained the most-favored-nation clause. England, in turn, agreed to admit all French goods duty-free except wines and spirits. This treaty became the basis for similar ones negotiated by France with Belgium, Italy, the Zollverein, Austria, Switzerland, and Norway-Sweden. Between 1862 and 1875, a number of changes took place. The duties on hops, timber, and sugar were repealed; the shilling-per-quarter registration duty on grain was abolished; all food was placed on the free list; and the number of imports subject to taxation was reduced to twenty.

Repeal of the Corn Laws. One phase of the advent of free trade, the abolition of the corn laws, can best be considered as a unit, although not logically separable from the whole tariff movement. The corn laws, which appeared early in history and assumed many forms, constituted one of the mercantilist devices which sought to encourage the home production of food and thus insure a large supply. This would mean self-sufficiency in time of war as well as a low cost of living and a cheap labor supply in times of peace. The operation of this legislation and its doubtful effects helped to bring protectionism into disrepute. In England, the Manchester school bolstered up the Anti-Corn Law Association which was established in 1838. This association was an outgrowth of a group of "Parliamentary radicals" organized two years earlier. It was formed by seven men who held a meeting in a hotel in Manchester. Others were attracted to its ranks, including Richard Cobden, who, together with John Bright, was to contribute the leadership.

Cobden's appeal for funds took the form of a plea, "Let us invest part of our property in order to save the rest from confiscation." As a fund raiser he showed remarkable ability. Agents were sent out to win adherents, and they met with seriocomic treatment. In one place the mayor refused the use of the town hall on the ground that the lecture would make laborers dissatisfied, while at another place a land-owning farmer offered a bushel of wheat to anybody who would throw the lecturer into the river.[9]

The Corn Law of 1815 had forbidden the importation of wheat except when the price was above 80*s.* per quarter, that is, per eight bushels, or about $2.50 a bushel. At this price, Marshall points out, "The wages of the ordinary labourer and his family would barely purchase enough bread to

[8] *Ibid.*, p. 360.
[9] Morley, *op. cit.*, pp. 103–7.

satisfy their hunger, if spent exclusively on bread."[10] Seven years later when wheat reached 70*s.*, "the landlords vowed that this was the lowest rate at which the British farmer could live, and not a few of them cried out for total prohibition."[11] Huskisson resisted their demands, although admitting that some revision would soon be necessary. Other countries were in distress because of their inability to sell their corn to England and were retaliating by shutting out British manufactures. In 1828, under the Duke of Wellington, a new corn law provided for a sliding scale of duties. For example, when the price of wheat was 69*s.*, the duty was 16*s.* 8*d.*; and when the home price was 73*s.*, the duty fell to a nominal tax of 1*s.* In 1842, a new law was passed which also made use of the sliding-scale principle. When the domestic price of wheat was 50*s.* or less, the duty was fixed at 20*s.*; but the duty was to be decreased by 1*s.* for each increase of 1*s.* in the price of wheat. Once, again, it must be pointed out that the corn laws applied to a number of grains, each of which was subject to a rate of its own and a sliding scale in terms of its own set of prices. It was against this type of law that the Anti-Corn League turned its wrath.

Circumstances helped the League. Its purpose won popular fancy, and public subscriptions were generous. The contributions in 1839 reached £5,000 and almost £8,000 in 1840. In 1843 approximately £50,000 were received, and in 1844 £90,000. The expenses amounted to £1,000 each week—a figure which suggests an impressive amount of propaganda. In 1841 Cobden was elected to Parliament; in 1842 a tariff which was motivated by a desire to cut the costs of living had been passed; in 1843 Bright entered Parliament; between 1845 and 1846 the Irish potato famine further emphasized the food problem, business began to improve; two bumper crops were harvested, and Peel suddenly became a convert to the movement. In 1846, as a result, Cobden was able to notify his wife, "My dearest Kate,—Hurrah! Hurrah! the Corn Bill is law, and now my work is done."[12] The English public regarded Cobden as a great benefactor. A public testimonial raised approximately £80,000. He went on a triumphant tour of Europe and was received by the Pope, kings, and other celebrities. He returned to England and served in Parliament until 1857.[13]

Sir Robert Peel's fate was not as happy politically, however. Three days after the House of Lords had accepted the bill, he was forced from office and did not again appear in the political scene during the remaining four years of his life. "Even today," remarked Bowden *et. al.*, "there is the widest diversity of judgment expressed in regard to Peel's capacity and conduct, but few statesmen ever made vital decisions of policy that stood

---

[10] Marshall, Alfred, *Industry and Trade* (London: Macmillan & Co., Ltd., 1927), p. 750.
[11] Morley, *op. cit.*, p. 110.
[12] *Ibid.*, p. 260.
[13] *Ibid.*, pp. 277–78, 311.

the test of time so well. Every major statute passed during Peel's ministry remained an unchallenged feature of the economic structure of Great Britain for the remainder of the nineteenth century. It was a notable achievement, and to an unusual degree a personal achievement."[14] The repeal of the corn laws brought about a split in the Tory party. The progressives in this group joined the Whigs, and the Liberal party was the outgrowth. Gladstone, a Tory, became the leader of the new party which since has had a dominant share in British and world history.

Free Trade in England. The remainder of the nineteenth century constituted a period of uninterrupted free trade with a minimum amount of discussion about tariff reform—meaning a return to a protective policy. In 1903, it is true, a vigorous campaign for this end was undertaken by Joseph Chamberlain and the Tariff Reform League. The program called for the retention of free trade as an ideal and its partial fulfillment through reciprocal trade treaties. But it also involved imperial preference, a protection of 10 per cent on manufactured goods, the free admission of raw materials, and the use of retaliation in the Smithian sense of forcing open foreign markets for British goods. The election of 1906, however, was a complete vindication for the traditional free trade policy. In spite of this, the Chamberlain principles were penetrating deeply, and by 1914 "the nation seemed to be permanently, and not very unevenly, divided upon the issue."[15] The increase of imports toward the close of the century, the relatively slower growth of exports compared with other nations, the competition of agriculture from the newer countries, a general decline of profits, the acceptance of the principle of state intervention in internal affairs, and the fact that the colonies were protectionist—these factors were raising doubts in the minds of many when the first World War and its aftermath brought into force the general principles of Joseph Chamberlain. We must also keep in mind that the English people were by no means unacquainted with revenue duties which are always a steppingstone toward protectionist duties. By the middle of 1910, revenue rates were assessed against beer, playing cards, chicory, chlorohydrate, chloroform, cocoa, coffee, collodion, ether, certain ethyls, dried fruits, fruits preserved with sugar, glucose, molasses, motor spirit, saccharine, certain transparent soaps, spirits, certain products prepared with sugar or molasses, tea, tobacco, and wine.

THE TARIFF POLICY OF FRANCE

Physiocratic Influence. We may begin our survey of French tariff development with the fiscal reforms of the physiocrat Turgot who oc-

[14] Bowden, Karpovich, and Usher, *op. cit.*, p. 357.

[15] Ogg, Frederic Austin, and Sharp, Walter Rice, *Economic Development of Modern Europe* (New York: Macmillan Co., 1926), p. 260.

cupied the office of Finance Minister. By the edict of 1774, all restrictions were swept away including the prohibitions on exports, but a series of circumstances including crop failures finally forced him from office. Most of his measures were revoked by his successor, although not all of the restrictions were reimposed. A part of the Turgot system remained alive, too, because of liberal commerical treaties which had been negotiated with Great Britain, Holland, and Russia. The next forward step was taken by the Constituent Assembly, which in 1790 abolished all provincial tariffs and other restrictions on internal trade. France became a unit for customs purposes. This was followed in 1791 by the enactment of a moderate tariff, applicable to all countries alike, containing but few prohibitions on imports and exports, providing for moderate rates of 15 per cent and less on manufactured articles and admitting raw materials and food stuffs free of duty.

The Restoration of Protection. International conflict beginning in 1792 brought about increased rates, restrictions, and some prohibitions. Commercial treaties were annulled, and trade was at the mercy of the series of decrees and Orders in Council. Smuggling defeated the prohibition on the use of any English goods. Napoleon was an avowed protectionist, and his tariff of 1806 was to serve as the basis for all succeeding tariffs throughout most of the century. Although the rates reached in 1810 were unprecedented, they continued to rise in 1814, 1818, 1822, and 1826. Iron duties were assessed at 120 per cent ad valorem, and agricultural duties became more and more prominent.

The government of Louis Philippe, 1830–48, did not change the French policy which by this time had become protective. In 1844, nevertheless, the economist Bastiat started a French free trade movement, being greatly impressed by the work of the Anti-Corn Law League in England and enjoying the acquaintanceship of Cobden, Bright, and others. Two years later, France's first free trade society was established at Bordeaux, but its immediate influence was not apparent because of the downfall of Louis Philippe.

The Policy of Napoleon III. With the coming of Napoleon III, France again moved toward free trade. This monarch was a free trader and an earnest follower of that movement in England as interpreted by the economist, Frederic Bastiat and others. Ogg and Sharp, however, point to the difficulties which he faced in bringing about reforms. There were four ways in which the laws could be modified—by legislative enactment; by suspension of duties on foodstuffs by executive order subject to subsequent ratification by parliament; by remission of duties on materials for French manufacture, again by executive order; and through the negotiation of reciprocal trade treaties which required no parliamentary ratification. Using the second method, Napoleon III had reduced rates on

cotton, wool, coal, iron, steel, meat, wines, and so on by 1855. He also revived the sliding scale on grain duties which had been suspended some years earlier.

In 1860 the secretly negotiated Cobden Treaty with England brought many of Napoleon's ideas into effect. It served as the basis for commercial treaties containing the most-favored-nation clause with Belgium, the Zollverein, Switzerland, Norway and Sweden, Holland, Spain, Austria, Portugal, the Hanseatic towns, and the Papal States. The reductions in each treaty brought the rates with England lower and lower.

Another liberating influence during this regime was the reform of the navigation laws. The French laws had reserved to French ships coastal and colonial trade and provided surtaxes on goods imported in ships flying flags other than the countries from which the goods came. No foreign-built ships were allowed to be "imported." In 1860 a tax of 25 per cent replaced this prohibition and in 1866 most of the surtaxes were removed, and trade with the colonies was less severely limited.

Protectionist forces again asserted themselves in 1868 and succeeded in having two commissions appointed to investigate the effects of the Cobden Treaties, but the outbreak of the Franco-Prussian War held up the movement except for a short-lived return of some of the features of the navigation laws. A series of bad harvests beginning in 1875 brought about the denouncement of the Cobden Treaty, but it was later renewed and remained in effect until 1882. Most of the other treaties, however, were allowed to go out of existence. In 1881 a general substitution of specific rates for ad valorem rates was made. At the same time, rates were raised about 25 per cent and were intended for bargaining purposes. Treaties were made with the same countries which previously had enjoyed the Cobden type of treaty, with the addition of Turkey and Serbia and with Italy taking the place of the Papal States and Germany that of the Zollverein. Bounties on domestic shipbuilding were enacted at this time as well. Agriculture enjoyed a dominant place in the French tariff movement beginning in 1881, and additional rates were given these products in 1884, 1885, and 1887. By 1890, agricultural protection was complete, although moderate from the point of view of rates.

Tariff Wars with Italy and Switzerland. In 1888, a tariff dispute with Italy defied all negotiations, and for two years the two countries applied various retaliatory measures against each other. Tiring of this, each enforced maximum rates against the other until 1898. The commerce of both countries suffered thereby. Italian exports to France declined 57 per cent, while those of France to Italy fell about 50 per cent.

The dispute with Switzerland began in January 1893 and lasted for two and one-half years. France applied her maximum tariff against Swiss goods, which meant a rate some 40 per cent higher than that imposed against friendly nations. The Swiss, for their part, raised rates by means of sur-

taxes against France on about two hundred commodities. Some of these rates reached 150 per cent ad valorem. The quarrel went further than the tariff, however, because Switzerland increased railroad rates on goods intended for the ports of Marseilles and Havre, thus causing great losses to French railroads and steamships and to other activities related to the shipment of goods. Austria, Italy, the United States, Germany, Spain, and Belgium took over, as a result, much of the trade in sugar, wine, silk, leather, metal, woolen cloth, and ready-made clothing.[16] By August, 1895, concessions by both parties renewed normal relationships, but the trade figures did not show full recovery until 1903.

The Tariff of 1892. The tariff of 1892 followed an election in which the tariff issue was uppermost and coincided with the expiration of many treaties. A maximum and minimum set of rates were introduced, manufacturing rates were advanced, and agriculture was given additional protection amounting to 25 per cent. Some 721 commodities and commodity groups were mentioned in this act, said to be the most detailed and comprehensive of any Continental tariff of its time and to offer the highest rates except for those of the United States and Russia. Numerous treaties made the minimum rate the effective one. In fact, Portugal alone paid the maximum rate. Dissatisfied with the minimum rates, there was an immediate demand for further protection. This demand was answered in 1908 when the minimum rates were increased—a 50 per cent difference between maximum and minimum taking the place of a 15 per cent difference. New articles were added to the tariff. The existing treaties were not disturbed; a new set of minimum rates merely took the place of the old set. Many of the lower rates were granted to the United States at this time.

The Tariff of 1910. The act of 1910 was laid out along the lines of 1892, although the revision involved 500 of the 654 classifications and emphasized protection to agriculture. Raw materials, however, remained free, although Franco-German trade was placed on a most-favored-nation basis. A tariff congress was held in Paris in 1914, attended by businessmen and statesmen from the two countries, which might have led to even more liberal terms; but negotiations were halted abruptly by the outbreak of war. By 1914, all countries except Portugal once again enjoyed the minimum rate.

THE TARIFF POLICY OF GERMANY

Attempts at Tariff Simplifications. The tariff history of the thirty-nine German states prior to the formation of the Empire in 1871 is essentially that of numerous attempts both by the individual states and

[16] Culbertson, W. S., *Commercial Policy in War Time and After* (New York: D. Appleton & Co., 1919), pp. 264–65; Ashley, Percy, *Modern Tariff History* (New York: E. P. Dutton & Co., 1911), pp. 408–10.

groups of states to simplify their internal and external tariff systems. Mention may be made of the reforms in Bavaria in 1807, Württemberg in 1808, Baden in 1812, and Prussia in 1818. Later on, the movement was undertaken by groups of states such as the Middle German Customs Union, the North German Confederate States, the League of the South, and finally the Zollverein.

Reforms in Prussia. The influence of Adam Smith was felt in Prussia where 60 local tariffs involving some 2,800 classes of goods and leading to a great amount of smuggling made orderly commerce difficult.[17] In 1818 all of the internal barriers were abolished. The tariff of that year provided for the free admission of raw materials, a moderate rate averaging 10 per cent on manufactured goods, and a 20 per cent average revenue tariff on tropical and semitropical imports. Few restrictions either of a prohibitive nature or export duties were provided. The example of Prussia was followed by other states, either acting independently or through reciprocal agreements entered into with Prussia. The Prussian tariff system, accordingly, remained liberal up to the establishment of the Empire even though responding with a temporary increase in rates in the early years of the forties because of the influence of Friedrich List.

The Zollverein. The Prussian tariff of 1818 became the basis of the rates of the Zollverein (tariff union), when a group of seventeen states covering two-thirds of the area and including a population of 23,000,000 entered treaty arrangements in 1833.[18] This tariff union provided for free trade between these German states and for the abolition of internal and transit duties. Some realization of what this meant to the people of Germany may be gathered from the way in which they congregated with long wagon trains at the various internal boundaries and waited until the stroke of midnight, January 1, 1834, when the Zollverein became a reality, and then crossed them amid cheers.[19]

The Zollverein, it must be kept in mind, was purely an economic union and not a political union. In all respects other than the tariff, the states retained their sovereignty. For the purpose of policy determination the representatives met annually, but, since any change called for unanimous consent, action was somewhat limited. The proceeds of the customs were divided among the states according to their population. For practical purposes, then, Germany erected a single tariff against other nations. Like the Prussian tariff, the duties on manufactured articles were moderate, while raw materials and some semimanufactured goods were admitted free. On produce of other climates, a revenue tariff only was levied.

---

[17] *Ibid.*, p. 3.
[18] *Ibid.*, p. 14.
[19] Clapham, J. H., *The Economic Development of France and Germany* (Cambridge, Eng.: Cambridge University Press, 1936), p. 97.

The Influence of Friedrich List. We have already seen in Chapter X that Friedrich List played an important part in the development of the protectionist movement on the Continent. But his efforts may be said to have antedated his sojourn in the United States and, in fact, to have been responsible for that sojourn. In 1817, he had been instrumental in forming a commercial and trade union in the south German states which sought, unsuccessfully, to bring about parliamentary action. Two years later he visited Frankfort where he met merchants who were also interested in the formation of a customs union for protective and retaliatory purposes. Upon becoming an official of this group, he drew up a memorial addressed to the Federal Diet on the subject. But the Württemberg authorities condemned him for engaging in activities with a "foreign" state and deprived him of his professorship.[20] He continued his efforts, nevertheless, until he came to the United States where he lived until 1830.

Conflicting Interests in the Zollverein. The Zollverein, which began in 1834 and which by 1852 included all the states that were to constitute the Germany of 1870, had to proceed along the lines of compromise in an endeavor to placate the conflicting interests of the component states. The reader in the United States can understand this struggle with greater ease than readers elsewhere because of its close resemblance to the conflict that took place here in the decades prior to the Civil War. As Professor Ashley has pictured the situation for us, the northern members of the Zollverein favored free trade. Prussia, for example, was dominated by agricultural and commercial interests. The Baltic ports, similarly, engaged as they were in the export trade feared that any restrictions would cause retaliation abroad. This also seemed to be the fear of the great exporting and importing centers such as Frankfort, Hamburg, and Bremen which carried on a large volume of trade with Great Britain and the United States. Manufacturers, especially cloth makers, as well as merchants of Saxony had a similar preference. The southern states, on the other hand, favored protection. Even in the case of Bavaria, which was torn between protection to help her spinners and free trade to help her weavers, found that protection was best for political reasons. Württemberg and Baden wanted their young industries protected. The years 1843–46 witnessed an increase of duties on cotton yarn, pig iron, iron bars, rails, woolen goods, and cotton and linen yarn. Reductions in the duties on certain raw materials were also made at the same time. A lower schedule of transit duties followed in 1850.

Austria and the Zollverein. Austria, whose interests were protectionist, had not taken any definite stand on the Zollverein during its formative years. But a growing jealousy of Prussian influence in German affairs and a determination to curb that influence made it necessary for

[20] Bowden, Karpovich, and Usher, *op. cit.*, pp. 373–74.

Austria either to join the Zollverein or else to weaken it by forming an independent tariff union with the south German states whose interests were, as we have seen, likewise protectionist. Austria accomplished neither alternative, although the struggle lasted about a quarter of a century. During this time, the Zollverein was in more or less constant danger. But Prussian diplomacy succeeded not only in keeping the Zollverein members docile by threatening not to renew the union but also in keeping Austria in a state of uncertainty. Her weapons consisted of an emphasis on free trade which Austria found abhorrent and of separate treaty arrangements which put off until 1865 the day when the question of Austrian membership would have to be decided.

When in August, 1860, Austria raised the question of preliminary negotiations, Prussia had not become reconciled to her inclusion. Early in 1861, moreover, France indicated her willingness to enter a treaty with Prussia and the Zollverein along the lines of the Cobden-Chevalier Treaty of the previous year. Since in the absence of such a treaty the products of the German states would be subjected to rates higher than those of British and Belgian producers whose countries had entered treaty arrangements with France, such a treaty was looked upon favorably by the free trade advocates whose views had become even more articulate with the formation of the German Economic Conference in 1858. This conference was an association of economists and political leaders who spread the free trade doctrine through publications and other means. The protectionists, on the contrary, visioned a closer union with their eastern neighbor, Austria, —a strong central Europe with a high protective tariff against the rest of the world. Austria, of course, made it clear that any negotiations of such a treaty would have to be delayed pending the outcome of her own negotiations regarding membership in the Zollverein. Prussia, however, entered an agreement with France which was formally ratified in August, 1862. The Prussian dominance of the tariff union had thus been the instrument which kept Austria out of the economic union. How much different modern Europe would have been had Austria joined is a matter of sheer speculation. Yet, it is conceivable that Austria as a member of the Zollverein might have become a part of political Germany in 1871. There would have been no Austria-Hungary and possibly no World War or later *Anschluss!*

Treaties with Holland and Belgium. On January 21, 1839, the Zollverein entered its first treaty. In return for lower duties on sugar, butter, cheese, cattle, and rice from Dutch colonies, the Zollverein was granted lower rates on selected goods shipped both to Holland and her colonies, as well as special concessions enjoyed by the Dutch in the region of the lower Rhine. In 1844, the Zollverein signed a treaty with Belgium which provided that the shipping of both countries was to be placed on an equal

footing and that German goods were to enjoy freedom of transit. Since a great deal of German imports and exports at this time were carried on Belgian railroads and through Belgian ports, the Zollverein gained a real advantage. Another event that strengthened the sense of unity in the Zollverein was the adoption of a common set of laws throughout its area on the subject of the bill of exchange, an important means of international payment.

Later History of the Zollverein. The original Zollverein agreement was renewed in 1853 for a period of twelve years and again renewed in 1865. The Austro-Prussian War of the following year, however, marked its end. In 1867, a new agreement was entered between the members of the North German Confederation and the states of southern Germany—Bremen and Hamburg alone remaining outside. A new treaty with Austria, reducing rates on iron, steel, drugs, and other products was signed in 1868, and the reductions were given to all countries. Further reductions were made in 1870. The policy of the new Zollverein remained liberal up to the revision following the Franco-Prussian War and the emergence of the imperial tariff system.

The German Empire and the Tariff. The Empire left the revenue tariff system relatively undisturbed in the first uniform tariff law of October 1, 1870, and in the amendment of July 7, 1873, which abolished export taxes. To the imperial government was given the exclusive power over customs, but the collection was carried on by the states under imperial supervision and the funds were retained for the support of the empire. A few changes in rates were made prior to 1879. Duties on iron were lowered and then removed, and, by 1877, 95 per cent of all imports entered free. But a growing unrest on the part of manufacturers who formed a Central Union of German Manufacturers to combat free trade, a bitterness against the dumping of British goods, the competition of food-growing countries, and the financial needs of the empire were some of the circumstances which compelled Chancellor Bismarck, originally an ardent free trader, to sponsor a protective tariff in 1879. Under this law all imports were divided into forty-three groups. The rates were still moderate and primarily revenue raising in character, although special stress was laid on agricultural products. But they heralded the return of a protectionist period which was in the ascendancy up to the time of the first World War. In the case of grain tariffs, the development in Germany differed somewhat from that of England and France because rye, oats, and barley were more important in the German diet than wheat. So long as Germany had a surplus for export, her duties remained moderate; and even these were given up in 1865 by the Zollverein. By 1877, the competition of Russian grains, however, was so marked that recognition of this fact was taken in the tariff of 1879 in the form of moderate duties

amounting to 10 marks per metric ton on wheat, rye, and oats and to 5 marks on barley, maize, and other grains. Subsequent upward revisions in 1885 and 1887 brought the rates, by 1890, to 50 marks on wheat and rye, 40 marks on oats, 22.5 marks on barley, and 20 marks on maize. Bismarck's successor reduced the rates to 35 marks on wheat and rye, 28 on oats, and 20 on barley.[21]

Bismarck's successor emulated the policy of France and entered into commercial treaties (some of which contained the most-favored-nation clause) with Austria-Hungary, Belgium, the Netherlands, France, Sweden and Norway, Italy, Spain, Greece, Switzerland, Great Britain and her colonies, China, Japan, Korea, Siam, Servia, Rumania, and finally Russia. The last-named country ended a vigorous tariff war during which she increased her harbor dues on German shipping twentyfold by giving Germany a reduction on 120 articles and by lowering duties on German grain, abolishing those on flax, oil-seed, and wool. The United States was also granted favored rates. In 1893, an extraordinary protectionist campaign was carried on by the League of Farmers (*Bund der Landwirte*) and Caprivi was forced into retirement the following year.

Tariff War with Russia. The disastrous tariff war waged between Germany and Russia from 1893 to 1894[22] arose out of the latter's attempt to build up her own industry through an imposition of a protective tariff system. This worked a hardship on German industry which had hitherto enjoyed the Russian market. At the same time, the German officials realized that while Russia relied on Germany for a market for her goods and raw materials, Germany could buy these from the United States and Argentina. Feeling her position to be a strong one, Germany was determined to break through the newly imposed Russian barriers. By entering commercial treaties with Austria-Hungary, Belgium, Italy, and Switzerland wherein lower rates were granted on items vital to Russia, Germany succeeded in forcing Russia to negotiate. Negotiations lasted two years. Russia offered to keep rates on certain commodities for a period of years and demanded a like guarantee on Russian products; reduced rates on grain, lumber, and animals; and permission to export to Germany live animals. Germany refused this offer and suggested instead the granting to Russia of conventional rates in return for reductions on 171 items out of 218 items on the Russian tariff; a simplification of customs procedure; and removal of restrictions on importation by land of coal, coke, pig iron, and raw cotton.

Russia, in turn, refused this counterproposal and announced her deter-

---

[21] See the excellent account in Clapham, *op. cit.*, pp. 210–12.

[22] This account is based on L. Domeratzky's *Tariff Relations between Germany and Russia 1890–1914*, Tariff Series, No. 38, Bureau of Foreign and Domestic Commerce (Washington, D.C.: U.S. Government Printing Office, 1918).

mination to adopt a double tariff—the rates of 1891 to be the minimum while the maximum were to consist of surtaxes up to 30 per cent and an additional 15 per cent against certain non-European goods imported into Russia from European countries not granting to Russia the most-favored-nation treatment. Germany was to be granted the minimum rates as well as concessions on land-borne trade. But Germany, after persuading Russia to postpone the new tariff from October, 1892, to April, 1893, came through with another proposal involving a reduction of rates. But this, too, failed to satisfy Russia. One more proposal was then made—to apply the conventional rates found in German treaties and in the Franco-Russian treaty. But this suggestion failed to win German approval. On July 21, 1893, Russia announced that the maximum tariff would go into effect against Germany. Germany replied with a surtax of 50 per cent on Russian products. Russia countered with an additional surtax of 50 per cent and increased the port dues.

Finally, after both countries suffered disastrously, a treaty was framed and went into effect on March 20, 1894, in spite of violent opposition from the agrarians in the Reichstag who used the debate to attack the whole commercial program of the Caprivi ministry. Their opposition was, however, lessened by new drawback provisions. Drawback allowances could now be obtained for grain exported without identity with grain imported; and the drawback certificates could be used for the payment of duties on imported grains, coffee, petroleum, and so on. Russian concessions involved reductions on 120 items amounting to as much as 30 per cent in some cases—the reductions being mostly on manufactured products. The treaty was to last ten years, or until 1904. Agitation on the part of the extreme agrarians persisted, nevertheless, during the whole period.

Economic Discussion of the Tariff. In order to understand the tariff discussion in Germany, it is well to keep in mind that prior to 1850 agriculture was the principal activity in Central Europe. Such legislation as was passed was not conditioned by a fear of a food shortage (as in the case of England) but rather arose out of a desire to protect the German market from an inflow of foreign agricultural products. Up to 1875, the Zollverein and Germany had enjoyed an excess of grain exports, except in the case of rye which was Germany's chief bread ingredient. So long as this condition maintained, the farmers were free traders, but subsequently they turned protectionist.

When industrialization began, the question was raised as to the best way of feeding the industrial population. Should legislation see to it that a home supply be maintained, or should some regular importation be countenanced? With the larger demand for food brought on by workers congregating in cities and with a decrease of farm laborers, food prices

were rising. This stimulated agriculture and made the agricultural interests wary of the cheap grain supplies of the United States and the New World. Opinions differed. Some sought to keep agricultural independence at the expense of industrialization, while others urged the growth of a manufacturing civilization. A protective agricultural program might save agriculture and yet postpone industrial growth. The manufacturers, in turn, wanted cheaper food and a lower living cost in order to survive the competition of other countries and ultimately compete in the world market. In a general way, it might be said that the actual tariff from the period of the eighties up to World War I was moderately protective and no one group was antagonized to any marked degree. Domestic production was aided, but the degree of dependence on foreign food sources was also controlled.

The Views of the German Economists. In terms of men, it might be said that the German economists of the early nineteenth century such as Von Thuenen were followers of Smith, although as early as 1809 Adam Mueller emphasized the relation of economic principles to the strong national state.[23] The older historical school consisting of List, Roscher, Hildebrand, and Knies (whose writings took form between 1841 and 1853) favored protection although recognizing stages in which free trade would be best.[24] The younger historical school (Gustav Schmoller, 1838–1917; *et al.*) regarded the tariff as a problem relative to time and place. Hence, they did not advocate to any extreme protection or free trade in terms of an industrial or agricultural state. Rather they saw the need at times for both agricultural and industrial duties and for the use of the tariff for purposes of negotiation with other countries.

Views of Adolph Wagner. Adolph Wagner (1835–1917) viewed with alarm the increase of population and technological advance and maintained that the agriculture of Germany should be encouraged by a protectionist tariff because industrialization involved three suppositions which constituted potential dangers—namely, that other countries would serve willingly as a cheap source of supply of food and raw materials, that the latter could be transported safely (a supposition which overlooked the hazards of war), and that the supplying country would not some day cease to have a surplus for export.

Wagner advocated:

> An economic, agrarian, and foreign-trade policy which, though it does not render impossible such foreign trade as is indispensable,—the importation of foreign and exportation of domestic products,—seeks to put it upon its old and natural foundation: where those commodities which either cannot be produced at home at all or only in altogether insufficient quantity and inferior quality (things dependent upon more or less exclusively foreign conditions of

[23] Ashley, *op. cit.*, p. 65.
[24] *Ibid.*, p. 69.

soil and climate) are of course obtained from abroad and are paid for by the export of suitable domestic products—essentially, therefore, by the products of our industries and mines; where a great, increasing, and profitable international trade in partly and wholly manufactured articles and in raw materials of various sorts and qualities, in which each country has its own special superiority, is carried on to the advantage of all concerned, and is even encouraged; but where the products, particularly the ordinary agricultural ones, but also those of forest and mine, which, owing to conditions of climate and soil, we succeed in producing permanently or have naturalized by means of the recent developments of economic technology (beet sugar, tobacco) or can easily naturalize, and that at a reasonable cost, where, I say, these are increasingly developed at home to as high a degree as possible. And this we advocate for the justifiable and great object of making us more independent of the importation of such products from abroad, and of keeping our agriculture, which is the basis of economic activity, whether modern or ancient, on a good footing and making it capable of maintaining in profitable labor a larger number of people in the rural districts.[25]

But the problem as Wagner viewed it was broader than that of economic value:

Assuming that a country is really permanently and decidedly superior to other countries in the production of certain even important articles—superior to them in greater measure than in the case of other commodities; assuming that it employs, accordingly, an even greater part of its labor resources, its population, its capital, in the branches of production in which it particularly excels, for example in certain great branches of the textile and mining industries; that it supplies with the products indicated its home market and increasingly exclusive foreign markets; that, on the other hand, it allows its own production of other articles to decline more and more, and supplies its needs in those lines even more exclusively from abroad. Then, to be sure, so long as production and trade maintain this character, it may be admitted that the countries concerned, and particularly the superior one, would reap an economic advantage, inasmuch as a greater quantity of commodities is obtained with a less expenditure of labor. If we were dealing exclusively with a problem of economic value, the result would be an unalloyed advantage.[26]

Such a condition would bring about such specialization as to make the population one-sided and narrow in its view, and national life would suffer. As the trader spirit would become specialized, it would become ruthless and "increasingly infect the entire national spirit, and assimilate it to itself;" and finally, "the trader spirit, trader conceptions, trader interests, would dominate everything."[27]

Wagner's views might strike us as being not unlike those of Daniel

[25] Taussig, F. W., *Selected Readings in International Trade and Tariff Problems* (Boston: Ginn & Co., 1921), pp. 350–51.
[26] *Ibid.*, pp. 353–54.
[27] *Ibid.*, pp. 355–56.

Webster who was in no haste "to see Sheffields and Birminghams in America." But to appreciate these views, it is necessary to understand the German situation and not to judge them by conditions in the United States. The German farmer even up to and following the first World War was dominated by a desire to have enough to live on rather than by the trader spirit or the profit motive. Hence, Wagner was dealing with a real situation when he insisted that the profit motive was only a part of a much larger social economy. In the next place, Wagner was writing in terms of the future, and, looking back, we must grant that his worst fears were realized. Raw material supplies became increasingly difficult to get, Germany followed the imperialistic development of England which Wagner so decried, and a war in which Germany was surrounded became a reality.

Whether any of this could have been avoided had all of Wagner's program been followed must be left to conjecture, but that some of his program, namely, the protection of agriculture, was put into effect, cannot be denied.

Views of Lujo Brentano. Brentano, the leader of a small group of free traders, in his *Die Schrecken des überwiegenden Industriestaats* (The Terrors of the Predominantly Industrial State) which appeared in 1901, argued that the transformation of Germany from an agricultural to an industrial state followed necessarily the growth of population and the diminishing returns in agriculture. "The number of human beings," he argued, "which a country can supply with food is in inverse ratio to the extent to which it devotes itself to agriculture."[28]

Admittedly, the effects on the life and the health of the working classes in an industrial state might be harmful, but Brentano pictured a union movement, a broad program of protective labor legislation, and housing reforms as sufficient to offset these evils. In a similar fashion, he answers the argument that dependence on a foreign source would be dangerous to Germany, holding that foreign trade is by nature a reciprocal relationship and that dependence likewise is mutual. This was in keeping, too, with his belief in the territorial division of labor. He could picture no article, moreover, for the supply of which Germany was solely dependent on one single country which might refuse to furnish it at all or else only under intolerable circumstances.

Brentano also "disposed" of the war argument in language which sounded reasonable in 1901 but which events after 1914 served to disprove. "I am assuming," he wrote, "a war that should last a year; although I must admit that I do not believe that it is any longer possible for a war waged on a large scale on European soil to last as long as a whole year, as no nation is any longer able to meet the costs of such a war."[29]

[28] *Ibid.*, p. 395.
[29] *Ibid.*, p. 405.

The Tariff of 1902. The tariff of 1902, was in a large measure, an act in which some compromise was effected between the divergent views suggested above. It was framed by a special committee which was representative of the agrarian, industrial, and commercial interests of Germany.[30] Although the protectionist doctrine was dominant, its mildness could give offense to no one. It followed the views of the economist Sering who enjoyed the confidence of the government.

The law contained 946 classes of imports as compared with 394 in the act of 1879. The free list numbered some 200 items. Rates on agricultural products and manufactured goods were increased. Highly specialized in its nature, it was framed primarily as a bargaining tariff to win concessions on specific products from particular countries. But, at the same time, the agricultural interests saw to it that minimum rates were fixed on wheat, rye, oats, and barley to prevent a lowering of these rates. The agrarian group, in short, was willing to bargain—but through concessions on nonagricultural commodities.

Some of the effectiveness of the act of 1902, however, must have been lessened by the fact that countries such as Austria-Hungary, Russia, Rumania, and Switzerland had raised their own rates in anticipation of its passage in order to strengthen their own bargaining positions and the fact that the act did not go into effect until 1906. Then, too, treaties were in effect with Belgium, Italy, Servia, the United States, France, and the British Empire (except Canada). World War I brought these treaties to an end, although their expiration date had been set originally for 1917. The tariff, however, despite treaty concessions, was the largest single source of imperial revenue, accounting for half of the total up to 1914—a situation strikingly similar to that of the United States.

Tariff Relations with the United States. It was not until February 5, 1910, that Germany extended her entire conventional tariff to our exports.[31] Prior to that date, about 4 per cent of our exports were subject to rates higher than those paid by similar goods from other countries. The law of 1910 stipulated, however, that: "Should the United States of America by means of laws, treaties with third countries, or in any other way modify to the detriment of Germany the present conditions concerning the exchange of merchandise between the German Empire and the United States, the Bundesrat will, in its discretion, withdraw, in whole or in part, the favors granted to the products of the United States." In 1911, some adverse criticism was levied against the United States for her failure to grant certain concessions given to Canada on wood pulp to Germany as well. As a result, Germany withheld from this

---

[30] Domeratzky, *op. cit.*, pp. 15–16.

[31] Snow, Chauncey Depew, *German Foreign-Trade Organization* (Washington, D.C.: U.S. Government Printing Office, 1917), Department of Commerce, Miscellaneous Series, No. 57, pp. 64–65.

country subsequent rates contained in treaties entered into with Sweden and Japan.

Colonial Tariff Policy. Unlike other colonial empires, Germany did not establish preferential tariff treatment for herself in her colonies. The products of all colonies including those of Germany were subjected to the same rates.

THE TARIFF POLICY OF RUSSIA

Early History. Up to 1821, Russia had comparatively little foreign trade. This was due both to the lack of a demand for foreign goods and to a tariff and restrictive system that virtually stifled trade. A slight reduction in rates in that year was followed by a sharp increase in 1823. Thereafter, until the middle of the century, there was some modification downward because of an increasing demand for imported goods and the desire of the government to increase its revenue and at the same time to cut down smuggling. From then until 1868, the trend toward a freer trade witnessed reductions in 1850, 1857, 1859, and 1864.

The Act of 1868. The tariff of 1868 sought to establish a manufacturing industry, although the state of Russian economy at this time called for the use of imported machinery, imported raw materials, and imported semimanufactured products.[32] This act remained basic until superseded by that of 1891. During this period, important administrative and tariff changes took place. In 1877, the government ordered all customs to be paid in gold. This was equivalent to raising rates by 50 per cent. In 1881, Alexander III placed a surtax of 10 per cent on all imports except salt. Increased rates were assessed on chemicals and dyestuffs in 1882. Two years later a further increase occurred, and in 1885 an additional 20 per cent surtax was imposed. Further increases were announced in 1886 and 1887. The year 1890 witnessed yet another 20 per cent surtax.

The Period from 1891 to World War I. The act of 1891 came in answer to the periodic need in every country to bring about an orderliness in the tariff system and to unify various amendments into a whole. The act, which contained 185 classes of enumerated articles, extended protection to raw materials and semimanufactured goods, with almost prohibitory rates on coal, machinery, chemicals, and steel. The act of 1893 which consisted of a double tariff led, as we have seen, to German retaliation and the tariff war of that year. In 1903, a general increase of duties was undertaken in order to help the Russian bargaining position in view of the expiration of the German treaty. This treaty was signed in 1904 and was to remain in effect until December 31, 1917. In 1914, higher import duties were levied on grains, peas, and beans. On the eve of the first World War, as Bastable points out, the average rate of the Russian

[32] Domeratzky, *op. cit.*, p. 9.

tariff was 28 per cent compared with 18½ per cent in the United States, 9.8 per cent in Germany and France, and 7½ per cent in Austria.[33]

THE TARIFF POLICY OF OTHER COUNTRIES

Italy. Prior to 1861, there was neither a united Italy nor commercial understandings between the various sections of the peninsula. There were many internal restrictions—eight separate customs stations separating Milan and Florence, a distance of 150 miles.[34] Cavour, who wanted to reconstruct Sardinian and Italian economy, was a free trader. The tariff of Sardinia which originally had been high had gradually been reduced. When it became the tariff of Italy, accordingly, it was moderate. Certain rates were raised in 1866. In 1870 a royal commission was appointed to consider the problem of protection. Its report was rendered in 1874, but no sound system emerged immediately. The act of 1878 which followed the expiration of special customs treaties with France, Austria, and Switzerland gave some protection to industry (textiles, etc.) but none to agriculture. The following year sugar, confectionery, preserves, chocolate, coffee, pepper, cinnamon, citrons, and limes were added. In 1880, rates on mineral and rosin oils were raised. The following year witnessed the abolition of export duties on cattle, sheep, goats, swine, fresh meat, poultry, and cheese.

A new commission was appointed in 1885. The law which resulted in July, 1887, was highly protectionist and, subject to four amendments and two decrees, remained in force until 1921. This act, as we have seen, brought on one of the longest of the tariff wars. For ten years trade between Italy and France was disrupted with trade falling to 50 per cent or less of what it had been previously. Even though a treaty was signed in 1898, trade between the two countries did not recover. Italy's trade with central Europe became marked in the nineties. Conventional tariff rates and most-favored-nation treatment were assured through agreements with Austria-Hungary, Germany, and Switzerland. Germany emerged as the leading buyer of Italian exports and the chief source of her imports.[35] World War I, of course, upset these relationships.

Switzerland. The history of the Swiss tariff is a very brief one in so far as laws are concerned. There was no general tariff prior to 1849. Then a uniform scale was adopted, but it was not protective in character. In 1884, a general tariff was passed which was amended three years later when the rates were raised. But until 1891 the tariffs were not protective.

[33] Bastable, *op. cit.*, p. 106.

[34] Knight, M. M.; Barnes, H. E.; Flügel, F., *Economic History of Europe* (Boston: Houghton Mifflin Co., 1926), p. 273.

[35] *Italian Commercial Policy and Foreign Trade, 1922–1940*, U.S. Tariff Commission, Report No. 142 (Washington, D.C.: U.S. Government Printing Office, 1941), p. 6.

In that year a moderate protective system was undertaken and remained in effect until 1906, although commercial agreements with Germany, Austria-Hungary, Italy, and other countries lowered the effective rates. After 1906, high duties were imposed on foodstuffs, while manufactured goods were assessed from 50 to 150 per cent higher than in 1891. The tariff covered 1,164 items.

The Netherlands. Up to 1847 the Netherlands imposed a protective tariff on imports, but, in that year, all corn laws were abolished. Three years later, duties on foreign shipping were repealed. These laws laid the basis for the act of 1854 which involved a general reform of the tariff system and the introduction of free trade. As in the case of Great Britain, this free trade policy was maintained with a system of moderate duties up to the period of the first World War.

SUMMARY

The treaty of 1786 between Great Britain and France was the first breach in the British protective system. In 1787, the tariff system was reconstructed. In 1820, the Manchester free trade movement began. After that, reductions were made involving thousands of items. In 1846, the Corn Laws were repealed (as the result of one of the most picturesque campaigns in history). The ultimate triumph for free trade came in 1860 in the form of the Cobden-Chevalier Treaty. By 1875, the dutiable list of Great Britain contained but twenty revenue items. In 1903, advocates of a tariff system attempted a comeback but were not successful until the period of World War I.

France, under physiocratic influence, attempted a quick free trade movement, but after 1792 the rates were protectionist in character. Napoleon was an avowed believer in high rates. But under Napoleon III the country moved toward free trade, and the Cobden Treaty in 1860 was signed. Thereafter, because of the Franco-Prussian War, bad harvests, and other circumstances, France moved again toward protectionism. She engaged in disastrous tariff wars with Italy and Switzerland. She used tariff bargaining after 1892 and by 1914 had extended her minimum rate, in return for concessions, to all countries except Portugal.

Germany was not united until 1871. A unifying economic factor had been Friedrich List's Zollverein (tariff union) which by 1852 included all the German states except Austria. The German Empire abolished export tariffs in 1873 and reduced rates virtually to a free trade level. This movement was halted abruptly by Bismarck who sponsored the protective rates of 1879. The tariff on the eve of World War I was protectionist.

Up to 1821 Russia had comparatively little foreign trade. Her rates moved downward until 1868 when an attempt to establish a manufacturing economy ushered in a series of tariff laws which moved the rates up

steadily to 1914, by which time the tariff had become one of the high tariffs of the world.

The first tariff of Italy was moderate. That of 1887 was highly protectionist. This remained the basic tariff until 1921. Switzerland had no general tariff prior to 1849. Until 1891, her tariffs were not protective. Then a moderate protectionism set in. After 1906, a higher tariff level was in force. The Netherlands employed a protective tariff up to 1847, but beginning in that year free trade in corn was established. The act of 1854 introduced free trade which was maintained up to World War I.

QUESTIONS FOR DISCUSSION

1. Review the highlights of British tariff policy between 1773 and 1846, emphasizing particularly the treaty of 1786 with France; the Cobden-Chevalier Treaty of 1860; the influence of the Manchester school; and the repeal of the Corn Laws.
2. To what extent do you believe the *Wealth of Nations* was responsible for England's trend toward free trade?
3. What economic factors contributed to the principles of Joseph Chamberlain and the Tariff Reform League?
4. Summarize briefly French tariff history between 1774 and 1914.
5. What was the Zollverein? What analogy can you draw between the economic effects of the creation of the Zollverein in Germany and the adoption of the Constitution in the United States?
6. What conflicting sectional interests were represented in the Zollverein? How was the question of Austria's inclusion in the customs union related to these conflicting interests?
7. What tariff changes were made after the formation of the German Empire? How do you account for these changes?
8. Evaluate the views on protection of Adolph Wagner and Lujo Brentano in terms of the economic conditions that existed in Germany in the latter half of the nineteenth century. What were the salient features of the tariff of 1902?
9. Trace briefly Russian tariff policy between 1821 and 1914.

Chapter XVIII

POLICIES OF EUROPEAN COUNTRIES SINCE WORLD WAR I

GREAT BRITAIN

The Effect of World War I. As we have seen in a previous chapter, Great Britain remained on a free trade basis in spite of the tariff reform movement in 1903 which sought a return to a protective tariff system and the introduction of British imperial and colonial preference system. Such duties as she imposed during this time were on commodities which were also subject to excise taxes domestically—spirits, wines and beer, tea, cocoa, coffee and chicory, sugar, dried fruits, and tobacco—and were intended for revenue purposes. The tariff reform ideas, however, did not die and were making headway by the time World War I began. A reversal of policy followed. By 1930, Great Britain had an elaborate tariff system which brought in a revenue slightly larger than our own tariff revenue for the same year.[1] In 1936, our own tariff yielded $386,811,000, whereas that of Britain brought in (at the old par) $1,181,466,000. This does not mean that Britain's protective system was higher than ours. Rather it goes to show what happens when a country responsible for importing one-sixth of the world's goods which enter international trade employs a tariff system.[2]

The steps by which this extraordinary reversal of policy came about may now be traced. During the war the need for revenue brought into being numerous types of taxation including customs duties. The McKenna duties of 1915 (named for the Chancellor of the Exchequer, Reginald McKenna) were imposed at the rate of 33⅓ per cent ad valorem on such luxuries as motorcars, motorcycles and accessories (except tires), musical instruments, and clocks and watches. Motion picture films were assessed at specific rates. Although their avowed purpose was to maintain and conserve foreign exchange, they continued in force after the war by annual renewal until 1924 when they were allowed to lapse by the Labor government. Then in the following year they were reimposed without any limit to their duration. By 1927 the McKenna duties also applied to

[1] Fitch, Edwin M., *Britain's New Tariff Policy* (Freeport, Ill.: Rawleigh Foundation, 1932), p. 6.

[2] Benham, Frederic, *Great Britain under Protection* (New York: Macmillan Co., 1941), p. 28.

commercial vehicles and tires. Some types of clocks and movements and some types of musical instruments were subjected to lower rates in 1933. In 1938, the McKenna duties were made subject to the same provisions for change as were found in the Import Duties Act of 1932.

In 1916 an import tax was placed on gasoline. This tax made its reappearance, moreover, on a number of occasions. In the same year, at the Allied Conference in Paris, certain other war agreements also strengthened the position of the British tariff advocates. These included antidumping measures in the form of prohibition on imports, a restriction on the use of the most-favored-nation clause in treaties, as well as co-operative schemes to limit enemy influence in industry and to make the Allies self-sufficient.[3] In 1919, Great Britain introduced the principle of British preference which made her duties just one-third of the McKenna duties when applied to the commodities produced in the Empire or colonies. From time to time, the degree of preference was increased, sometimes by increasing the general rate charged against non-Empire countries and sometimes by reducing further the Empire rates.

The Period 1921–31. In 1921 the Dyestuffs Importation Act went into effect prohibiting, except under license, the importation of all synthetic dyestuffs and intermediate products. This law was made permanent in 1934, and the restricted list of commodities was enlarged. In the former year, too, the Safeguarding of Industries Act (not applicable to Empire goods) singled out certain "key" industries for a protection of 33⅓ per cent against foreign goods which were being sold in the United Kingdom below the cost of production or below a price which the home manufacturers were compelled to charge for profitable production. Among those given tariff protection at this time were the coal, iron and steel, engineering, shipbuilding, electrical trades, textile, and chemical industries. Other manufactures were also placed on the tariff list although not called "key" industries. The act was intended to run for five years, but it was renewed in 1926 for a ten-year period, and once again in the latter year so that it was effective until 1946. The year 1921 also witnessed the passage of the Reparations Recovery Act intended to check the potential invasion of German goods with rates as high as 50 per cent ad valorem.

In 1922 another law was passed assessing the rate of 33⅓ per cent ad valorem on commodities originating in countries affected by currency depreciation. Never applied to countries enjoying the most-favored-nation treatment, it was allowed to lapse two years later.

The general elections of 1923, however, constituted a rejection on the part of the English people of the protective system. At least the Labor

[3] Delle Donne, O., *European Tariff Policies* (New York: Adelphi Co., 1928), pp. 73–75.

Ministry understood its victory in this way and allowed the McKenna duties and the duties of the Safeguarding of Industries Act to lapse. In addition, rates on sugar, tea, and similar items were reduced. On July 1, 1925, nevertheless, the McKenna duties were revived together with a generous bounty on sugar. In effect, a bounty was to be paid amounting to 4 cents a pound. Reductions in this amount were provided over a period of time until a level of 1.33 cents was reached in 1934 when the bounty was to expire. In the three years that followed, more items were added to the list of protected articles—cutlery, leather and fabric gloves, gas mantles, embroidery, pottery, hollow-ware, wrapping and packing paper, buttons, tobacco, wines, photographic films, matches, gasoline, benzol, kerosene, mechanical lighters, silk and artificial silk, hops, and so on. In 1929 the Labor party and Ramsay MacDonald sought to remove a number of duties but needs of the budget prevented any general revision beyond the abolition of the high rates on gloves, lace, and cutlery.

Tariffs: The Case Examined. It is not surprising that under these circumstances of rising protection that a committee of eminent English economists should give their reaction to this reversal of British policy. In November, 1930, a number of them began a series of discussions and reached the conclusion: "We should all think it a disaster, if the policy of Free Trade which has served Britain so well materially, as through her it has served as an inspiration to all who in any land have worked for good understanding among nations, were today to be sacrificed to ignorance or panic or jealousy or specious calculations of a moment's gain." The discussions resulted in the appearance, in August of 1931, of a book called *Tariffs: The Case Examined.*[4] Subsequently, this work has gone through a number of editions. Compiled under the chairmanship of Sir William Beveridge, the other contributors included well-known teachers and writers such as F. C. Benham, A. L. Bowley, T. E. Gregory, J. R. Hicks, W. T. Layton, A. Plant, L. C. Robbins, and G. L. Schwarz.

A study of the book shows the influence of classical economics and especially the opinions of Professor Alfred Marshall (to which we have referred) as well as those of Professor Taussig. No review or synopsis can do justice to this work; it must be read and studied. However, we shall attempt to bring out some of the salient points because they may be taken as indicative of the modern attitude of British scholars toward the tariff problem.

The book opens with Marshall's statement given before the Parliamentary committee in 1903 and raises questions regarding the extent to which conditions that called for free trade at that time had altered by 1930 and whether the changed conditions called for a change in fiscal

[4] Beveridge, Sir William, and Others, *Tariffs: The Case Examined* (London: Longmans, Green & Co., Ltd., 1932).

policy, that is, the abandonment of free trade. Three changes are to be noted in the latter year: "the apparent worsening of the general economic position of Britain," as well as "the growth of economic nationalism," and "the growing interference by the State with individual freedom in fields other than that of foreign trade." But one thing had not changed, namely, Britain's reliance on foreign trade. For example, in 1903 she depended on the outside world for 82 per cent of her wheat and in 1930 for 80 per cent; in 1903 she imported 45 per cent of her meat and at the second date 60 per cent. In the earlier period she imported 85 per cent of her butter and all of her sugar, and, in the latter period, 89 per cent of her butter and 94 per cent of her sugar.

We then meet a number of conventional arguments for free trade. The authors repeat the division of labor and territorial division of labor benefits. They state that gold is a lubricant and that it is a mistake to stop its flow; that you cannot expect to sell unless you will also buy; that tariffs usually raise prices of things imported; and that tariffs are borne by the importing nation subject to some exceptions. They discount the tariff as a protector of the standard of living of labor and suggest that, on the contrary, it lowers that standard. They consider the relation between high wages and high productivity as well as the folly of attempting to build a scientific tariff on the equalization of costs of production.

They make clear the position of the free trader: "The Free Trade doctrine bars not all taxes on imports, but only taxes intended to influence directly the course of international trade. Taxes on articles which cannot be produced in Britain—tea or wines or tobacco—may, by raising their price, discourage their consumption in favour of substitutes, but will not cause them to be produced in one place rather than in another."[5]

They then turn their attention to answering some of the arguments advanced by the proponents of protection. One of the outstanding of these arguments is that the tariff is an aid to solving the unemployment problem. This they deny. The quotations they use from the writings of John Maynard Keynes, written before and during the depression, throw an interesting light on the influence of existing conditions on the teachings of economists. In 1923, Professor Keynes wrote:

> The one thing that Protection cannot do is to cure unemployment. . . . There are some arguments for Protection based upon securing possible but improbable advantages to which there is no simple answer. But the claim to cure unemployment involves the Protectionist fallacy in its grossest and crudest form.

Again, and in the same vein, he wrote:

---

[5] *Ibid.*, p. 33.

If Protectionists merely mean that under their system men will have to sweat and labour more, I grant their case. By cutting off imports we might increase the aggregate of work; but we should be diminishing the aggregate of wages. The Protectionist has to prove, not merely that he has made work, but that he has increased the national income. Imports are receipt and exports are payments. How, as a nation, can we expect to better ourselves by diminishing our receipts? Is there anything that a tariff could do, which an earthquake could not do better?

The year 1931, however, finds Keynes advocating a degree of protection when he says:

In ordinary circumstances, when abnormal unemployment is expected to be quite temporary, it is impossible to justify a tariff by reference to its effect on employment. For when the productive resources of the country are likely to be almost fully employed in most directions, a tariff means a diversion of output, not a net increase. I have often argued the Free Trade case on these lines, and would do so again in the appropriate circumstances. But at present the necessary conditions are not fulfilled.[6]

A second argument for a tariff advocated by Keynes points to its use as an instrument of international equilibrium, that is, as an aid to adjust foreign lending and the foreign balance and as an alternative or supplement to measures of monetary control whether in the form of establishing differential rates of interest at home and abroad or devaluation. The authors deny the validity of the argument. The success of such a program calls for rigid money wages which will neither rise nor fall. But a tariff will tend to raise prices paid by the workmen and thereby decrease his real wages. If in the course of events he demands higher money wages to offset this decrease, then prices will rise and the export market will decline thus cutting down Britain's foreign balance. In the second place, the very nature of a balance calls for cutting down imports without cutting down exports. Merely to cut imports will lead to a smaller supply of bills on England which, in turn, will reflect unfavorably on English exports. The authors question whether increased lending on the part of British capitalists would be possible especially with a country from which English purchases were declining. "Is it possible to conceive of a tariff having this effect—of severely curtailing the trade of a foreign country and simultaneously increasing both its desire to borrow and our desire to lend to it? Frankly, the suggestion seems little short of fantastic."[7] The authors point out also that the tariff is too much of a permanent policy to

[6] The selections appear on pages 52, 62, and 67. They appeared originally in the *Nation and Athenaeum*, November 24, and December 1, 1923, and in the *Times*, March 21, 1931, respectively.

[7] *Ibid.*, p. 86.

be used as an instrument to correct a transient phase. "Tariffs once imposed must be taken as permanent; and permanent tariffs, in the long run, are as certainly an impoverishment of the countries which they hold apart as are frozen seas or rock-bound coasts."[8]

On similar grounds, other arguments are dismissed. But there is one other argument to which considerable attention is given. It is the familiar claim that the best way to meet a tariff is with a tariff of your own. As expressed by Mr. Stanley Baldwin:

> I am all in favour of lower tariffs in the world; we want the barriers lowered. I admit at once that high tariffs are a check to trade, but as long as there is one market left of the importance of our market which exists for every tariff country to fling its surplus into, no move will ever be made. The only hope we have to secure lower tariffs is to put a barrier round the free market and say, "Anyone who wants to come in here has to give us reciprocal advantages." You will find that there will be a new spirit in the world, that many a country which has never listened to any of the academic or book arguments will begin to realise quickly that business is business, and that they may be able to do better for themselves if they enter into tariff agreements with us as Cobden made with France seventy years ago.[9]

Mr. Beveridge and his associates deny vigorously, however, that "the advantages of Free Trade depend upon its being mutual." They quote Professor Pigou:

> The advantages which a policy of freedom possesses over one of Protection does not, and never has been believed to depend upon its being reciprocated. The high customs duties of foreign countries do, indeed, inflict an injury upon us. They have this result, however, simply because they put a check on exchange. They impose a burden upon the outward branch of our foreign trade, which, of course, diminishes both our exports and our imports.

They argue further:

> Gain through freeing imports from taxation does not depend on other countries doing the same. For other countries to tax our exports to them is an injury to us and an obstacle to trade. For us to tax their exports to us is not a correction of that injury; it is just a separate additional obstacle to trade . . . . If one country has good harbours while all the rest have bad ones, it will not realise the advantages of good harbours so fully as if all the rest had good ones also. But it will realise some advantages; it will be better off than if it, too, sank rocks all round its coasts.[10]

They deny that bargaining with a tariff will accomplish its purpose because of vested interests which oppose the use of their industries for

[8] *Ibid.*, p. 92.
[9] *Ibid.*, p. 108.
[10] *Ibid.*, pp. 109–10.

bargaining purposes. The idea "is just a disastrous misunderstanding of human nature. Bargaining with tariffs is bargaining with livelihoods." They quote with approval Professor Taussig who once declared, "As to most of the familiar arguments for Protection, either all the economists are hopelessly in the wrong, or else the Protectionist reasoning is hopelessly bad."[11] In a later chapter, wherein we shall summarize the arguments for free trade and protection, the reader will find an opportunity to weigh this position of the economists.

The British Election of 1931. To what extent Great Britain hearkened to her economists is difficult to say. That she did not return to her traditional free trade position, of course, is evident. But to what degree she kept her tariff system moderate because of their views must remain conjectural. Certainly, the depth of depression after 1931 and the conditions leading to the Second World War were hardly conducive to reasoned judgment. The election of October, 1931, had been interpreted as a mandate of the people to adopt any necessary measures intended to improve the economic conditions prevailing in the United Kingdom. Anticipating the enactment of a tariff, British merchants and manufacturers hurriedly placed huge orders for imports in order to have a goodly supply on hand. But an alert Parliament met this action a month later by a law rushed through in but three days' time. It was appropriately called the "Abnormal Importations Act." Its purpose was clearly stated: "An act to make provision for the imposition of duties of Customs on articles wholly or mainly manufactured which are being imported into the United Kingdom in abnormal quantities and for purposes connected therewith." The Board of Trade was empowered after investigation to lay an order before Parliament imposing duties up to 100 per cent ad valorem on such articles—the value to be based on the cost of the goods delivered to the importer, hence including freight and insurance. Parliamentary agreement was to be forthcoming within twenty-eight days or the order would cease to be of effect. On the same day that the bill was passed, the Board of Trade announced a duty of 50 per cent on twenty-three classes of imports.

The Horticultural Products Act of December, 1931. In passing the Horticultural Products Act, the government departed from the principles which had proved victorious in 1846 and levied high duties on fresh fruits and vegetables, flowers, bulbs, and plants. The Empire's products continued to enjoy free entry, while some seasonal free trade was extended to all countries. Intended at first solely as a temporary measure, it became a regular part of the new British tariff which became known as the "Import Duties Act of 1932."

[11] *Ibid.*, p. 114.

The Import Duties Act of 1932. The Import Duties Act went into effect on March 1, 1932, bringing together into a tariff system what had previously been a series of laws. This act placed a general ad valorem duty of 10 per cent on all goods imported into the United Kingdom except on those already subject to the tariff, on those coming from Empire sources, and on certain foodstuffs and raw materials specifically exempted. Among those coming under the last-mentioned category were wheat, corn, meat, livestock, tea, raw cotton, flax, hemp, cottonseed, rapeseed, linseed, soybeans, wool and animal hair, hides and skins, newsprint, raw rubber, copper, sulphur, cinchona bark, coal, coke, unset precious and semiprecious stones, and cork.

The act also provided for the establishment of the Import Duty Advisory Committee, consisting of a chairman and not less than two nor more than five members to be appointed by the Treasury for a three-year term. Its functions were to recommend changes in the rates of duty, and, to this end, the committee was authorized to conduct hearings and to require that evidence be given under oath. The commodities which were to be of special concern were those which were nonessential and those "which are being produced or likely to be produced in the United Kingdom in quantities which were substantial in relation to United Kingdom consumption." To meet discrimination, the act also authorized the Board of Trade to increase rates up to 100 per cent ad valorem beyond the rates already in effect. Finally, the government was given authority to enter into reciprocal trade agreements.

By the end of April, advantage had been taken of the authority to raise rates and the most common rate in effect was 20 per cent. The duties on manufactured goods varied from 10 to 33⅓ per cent. Within eight months, and perhaps more in keeping with Mr. Stanley Baldwin's view than those of the economists, eighteen countries asked for tariff negotiations—Argentina, Belgium, Columbia, Costa Rica, Denmark, Estonia, Finland, France, Germany, Ireland, Lithuania, the Netherlands, Norway, Peru, Santo Domingo, Sweden, Switzerland, and Uruguay. But in each case the government took the position that no negotiations could be undertaken until the Ottawa Conference had been held.

Mr. J. B. Condliffe pictures the results of the policy in these words:

> The immediate effects of this abrupt reversal of British policy were far-reaching. It was a decisive factor in the widespread adoption of exchange control, the raising of tariffs, and the adoption of quantitative trade restrictions and regulated national economic systems. It threw the smaller manufacturing countries of Europe, as well as agricultural-exporting countries the world over, into something approaching consternation. The longer-run effects deriving from the collapse of the world trading system that had rested upon sterling for

over a century cannot yet be assessed. The decisions of 1931–1932, it is becoming clear, marked the end of an era not only for Great Britain itself, but for the rest of the world. Nineteenth-century concepts of monetary stability, of international specialization and cooperation, and of the relations between politics and economics, were revealed as no longer operative or adequate. The end of the story cannot yet be foreseen, but the significance of these historic events does not diminish as the passing years reveal the amplitude of their repercussions.[12]

The Ottawa Conference. The Ottawa Conference was held during July and August, 1932. The British government undertook (1) to levy duties on foreign imports of wheat, corn, copper, linseed (hitherto free); (2) to increase the existing duties on foreign imports of a large range, mostly foodstuffs, all of which were to continue free when imported from Empire sources; (3) to control by quotas the importation of meats (and possibly dairy products) in the interest of Dominion producers; (4) to continue duty-free the admission from the Dominions of certain products made dutiable from foreign sources under the British tariff of 1932; and (5) to refrain from reducing certain specified margins of preference.[13]

As a result, the United Kingdom entered agreements with Australia, Canada, India, Newfoundland, New Zealand, South Africa, and Southern Rhodesia. British preference also provided for the continued free entry of goods from British colonies, mandates, and protectorates. In 1937, the United Kingdom and Canada revised their agreement. The others are still in force except that of India which terminated on March 31, 1939, but was succeeded by a new one, effective August 15 of that year.

The Success of British Preference. Some idea as to the success of imperial preference, aside from better political relationships, may be had from the fact that British importation from the Empire increased from 29 per cent in 1930 to 35 per cent in 1932, to 38 per cent in 1935, and to 40 per cent in 1938. British exports for Empire countries rose from 43.5 per cent in 1930 to 48 per cent in 1935 and to 50 per cent in 1938.[14] This system, however, has apparently not proved unreservedly popular. Mr. Benham makes this statement in his book, *Great Britain under Protection*:

> By 1939 there was not much enthusiasm for imperial preference either in Great Britain or in the rest of the Empire. British farmers were annoyed that meat and dairy produce from the Dominions continued to come in free and

[12] Condliffe, J. B., *The Reconstruction of World Trade* (New York: W. W. Norton & Co., Inc., 1940), p. 188.

[13] *Foreign Tariffs and Commercial Policies during 1932*, Trade Information Bulletin, No. 812, Department of Commerce (Washington, D.C.: U.S. Government Printing Office, 1933), p. 10.

[14] Benham, *op. cit.*, pp. 102, 104.

the British manufacturers were disappointed that leading Dominions and India insisted upon giving fairly high protection to most of their manufactures, so that British sales of a number of products, especially textiles, tended to fall off despite the preference. The British government has found it embarrassing when seeking expanding outlets for British exports in foreign countries to find their hands tied by pledges given to the Dominions which prevented them from making concessions to other countries. The Dominions, for their part, were somewhat disappointed that the benefits of preference on commodities such as wheat, of which there was an Empire export surplus, had been so slight, and although Australia and New Zealand were pleased with the preferences on their meat and dairy produce they were apprehensive of being requested to restrict their exports of these goods in the interest of British farmers. The manufacturers in the Dominions resented such reductions as had been made in the duties on competing British goods. And, in spite of Empire preferences, Great Britain was not an expanding market for Empire or, indeed, any other produce. If the Dominions wanted to increase their sales, they would have to look to other countries and free themselves to some extent from their undertakings to Great Britain. As for the colonies, the main result of the change in British policy has been to keep up their cost of living.[15]

Trade Agreements. In 1933 and 1934 the government negotiated bilateral agreements with the Scandinavian countries looking toward an expansion for the British market of coal and textiles, with Argentina for the allocating of a large amount of exchange for remittances to the United Kingdom, with the Baltic states in behalf of agricultural exports, with the Netherlands for reciprocal quota treatment, with Poland and with France in order to end a four months' tariff war, with Germany in behalf of payments owed to British exporters, and with the Soviet Union looking toward the balancing of payments between the two countries and the promotion of trade. Negotiations were also undertaken with British India to amplify the degree of British preference and with the Irish Free State in support of British coal and Irish cattle. Prospective agreements were also discussed with Italy, Peru, Spain, Turkey, and Uruguay. On May 7, 1934, an agreement to regulate the output and the export of rubber from rubber-producing countries in order to reduce world stocks and maintain the price level was signed in London by representatives of the United Kingdom, the Netherlands, France, India, and Siam. A five-year quota was assigned, and provisions were adopted for periodic readjustment. Great Britain also entered an agreement regarding the production of tin ore with tin producing countries.

The year 1935 witnessed a revision of the tariff affecting 410 classifications. Of these, 84 represented increases in the interests of the metal, textiles, fertilizer, and chemical industries. The last-mentioned also benefited from 37 reductions and the addition of 112 materials used by it to the

[15] *Ibid.*, pp. 108–9.

free list as well as temporary exemptions in 103 items from the Safeguarding of Industries duties. There were also some changes in the duties levied on iron and steel, synthetic nitrogen, doors, and rayon.[16] A number of trade agreements were entered during the year with Ireland, India, Poland, Italy, Uruguay, and Turkey.

In 1936, the United Kingdom enjoyed a boom in domestic business brought in part by an armament and public works program. Some overseas business had to be sacrificed to take care of home demands; and, in the interests of the large quantities of raw materials and semimanufactured products needed, there was some lowering of tariff rates.[17] In April, 1938, the United Kingdom and the Irish Free State finally signed a treaty which brought to an end a tariff war that began in 1932. There were extended to the agricultural products of Eire all of the benefits of imperial preference. Eire, in turn, guaranteed the free entry of British coal while at the same time fixing a minimum duty of 3*s.* per ton on all foreign coal. She removed her retaliatory rates, placed certain other goods on the free list, and promised to extend preferential rates of one-third (or 10 per cent ad valorem whichever would be greater) on all future duties. In November, 1938, the United Kingdom signed the Reciprocal Trade Agreement with the United States for herself, Newfoundland, and the British Colonial Empire. It became effective January 1, 1939. The Anglo-Indian Trade Agreement became operative August 15 of the same year.

British Policy during World War II. On September 1, 1939, Germany invaded Poland, and two days later Great Britain declared war. Her insular character and the oft-repeated assertion that she possessed only a few weeks' food supply, should she ever be cut off completely by a blockade from the rest of the world, necessitated quick action regarding exports and imports. In addition, the realization that huge quantities of foreign exchange would be needed compelled her to eye her balance of trade. Then, as the war continued, special attention had to be given to essential foodstuffs, to vital war materials, and to the lessening of luxury goods consumption. These considerations, in turn, brought on a closer relationship with colonial trade. The war, too, brought the problems of contraband to the fore.

We are not going to make any attempt here to consider chronologically or exhaustively the numerous laws, decrees, orders, and other regulations which were imposed after the outbreak of the war. Some of these will be generalized in the chapter dealing with "War and Commerce"; but here our concern will be the more basic policies related to the import, export, and control of commodities.

---

[16] *World Economic Review, 1935*, Department of Commerce (Washington, D.C.: U.S. Government Printing Office, 1936), Vol. II, p. 153.

[17] *World Economic Review, 1936*, Department of Commerce (Washington, D.C.: U.S. Government Printing Office, 1937), Vol. II, p. 9.

Immediately upon the declaration of war and under the provisions of the Import, Export, and Customs Powers (Defense) Act, a long list of goods was compiled, the exportation of which was prohibited except under license. The goods were classified under Schedules A, B, and C. Schedule A included all ships' stores regardless of destination; Schedule B included all goods which were not to be exported to non-Empire countries; and Schedule C included goods which might or might not be exported to any foreign country in Europe or on the Mediterranean or Black Seas (other than France or the French colonies and protectorates). At this time, of course, France had not surrendered to Germany. Month by month, additions were made to the list. At times the restrictions were lightened to the extent that general licenses instead of individual export licenses were given on certain items, subject to compliance with specific conditions. Such items as films, tobacco, coal, and coke were so treated as well as exports other than foodstuffs to Eire.

In December, 1939, the Board of Trade announced that an officials' committee had been set up to unify all commercial transactions within the sphere of economic warfare and to consider the purchase from and the supply of all neutral countries where the element of economic warfare might arise. But, while exports were severely restricted, Britain did not lose sight of the fact for even a moment that export trade had to be kept alive and that foreign markets had to be retained. This realization grew out of two factors—first, the need for foreign exchange and, secondly, the retention of the markets to help postwar reconstruction. To this end the Board of Trade appointed an Export Council of seventeen members. A month later this council published a "White Paper" giving its aims and plans. The Board of Trade President served as the Chairman, while the post of Vice-Chairman was filled by the Secretary of the Department of Overseas Trade. The other members represented other departments of government, industry, commerce, finance, and labor. The aim of the council stated at the time of its organization was as follows: "The maintenance of Export Trade is so vital a factor in the war effort of the Allied Powers that no measure calculated to contribute to the end in view should be excluded from consideration. . . . It is essential that under war conditions exporters should receive direction, guidance and support from the Central Government to a degree never contemplated under peace conditions. . . . The Council place no limit to the expedients they would be prepared to consider."

By March, 1940, twenty-six export groups were formed whose combined sales in 1938 had represented £150,000,000. These groups were concerned, it must be repeated, with postwar as well as wartime considerations. From time to time, the council was urged to advocate direct government subsidies, but it took the position that, while public money is a good lubricant and should not be ruled out, nevertheless, domestic and

foreign repercussions of such a plan might prove disastrous. Another proposal seriously advanced was that the government should form export companies to purchase the current output of potential export industries and to stock the commodities which they could not sell. Exporters were also given a large measure of protection against the risk of overseas customers who could not meet their payments because of war conditions. The Export Credits Guarantee Department, first established in 1919, raised its coverage against transfer risk, with few exceptions up to 90 per cent, and recognized political expediency and "national interest" in the place of strictly commercial considerations. In April, 1940, a new company was formed for the primary purpose of developing and carrying on trade with the Balkans and was known as the "English Commercial Corporation." Its capital was subscribed by the treasury, but the amount, £500,000, was considered too small for the work to be performed. Its goal, the rewinning of trade lost to Germany, of course, was never reached due to the absorption or complete control of that region by Germany. Still another proposal was being put forward in 1940. Mr. W. C. T. King, taking the position that exports were really the indirect means of obtaining war supplies, held that their sale should not be judged in terms of profit or foreign exchange but by whether more war material could be purchased with the proceeds of exports than could be produced by the same amount of labor and capital employed at home. Such reasoning would suggest the establishment of government owned businesses which would run along policies quite alien to those under which individual foreign traders are compelled to work.[18]

Control of Imports. On September 5, 1939, the British government also placed practically all imports into the United Kingdom under import licenses or exchange permits and later in the same month created a Food Ministry which became the sole importer and director of distribution for all essential foodstuffs. The government also requisitioned all cereals, cereal products, and dried fruits already in the country or afloat. In addition, to save exchange and to conserve shipping space, a long list of imports were temporarily prohibited entirely:

Flowers, foliage, etc. Pottery and other shaped and fireclay products. Plate and sheet glass other than spectacle glass.

Articles of the following descriptions made wholly or partly of plate or sheet glass: Glass mirrors, shelves, finger plates, table tops, and advertisement tablets; glass bottles, jars, and tubular containers and stoppers and covers for bottles and jars. Glassware of a kind commonly used for domestic purposes; stationery glassware.

Clocks and watches, including articles of which a clock or watch forms a substantial part, other than such articles of a description commonly used for industrial purposes.

[18] *The Banker*, London, May, 1940.

Fittings and accessories of the kind used in interior electric-lighting systems. Cash registers and parts thereof. Dry cleaning and laundering machines. Hair-waving machines and parts thereof. Vacuum cleaners.

Articles manufactured wholly or partly of wood: Furniture and cabinet ware; beadings and moldings (including moldings for picture frames, gilt or not); woodware (bread platters, trays, pastry boards, etc.); wooden heels.

Damask table linen; handkerchiefs; towels of all descriptions; other made-up linen goods of a description commonly used for domestic purposes; embroidery.

Acids (the following): Citric, formic, oxalic, and tartaric; bleaching materials other than bleaching powder (chloride of lime); chloral hydrate; collodion; citrate of lime; salt (sodium chloride).

Sodium compounds (the following): Carbonate, including soda crystals, soda ash, and bicarbonate; caustic; cyanide, phosphate, sulphate; silicate (water glass); soap of all descriptions.

Leather manufactures (the following): Saddlery and harness; trunks, bags, wallets, pouches, and other receptacles, whether fitted or not of leather or of material resembling leather; "other goods manufactured wholly or mainly of leather."

Motorcars, motor bicycles and motor tricycles (other than lorries, omnibuses, fire engines, ambulances, and tractors).

Beads and bead trimmings and articles manufactured mainly of beads. Goods (other than spirits and wines) manufactured more than 100 years before the date of importation. Articles made wholly or partly of ivory, amber, jet, coral, mother-of-pearl or natural shells including tortoise-shell. Articles (other than weighing machines, scale, and balances) made wholly or partly of jade, onyx, lapis lazuli, or other similar stones. Smoker's ash receptacles, cigar and cigarette cases and boxes and articles of which such cases or boxes form part, cigarette holders, cigar holders. Pincushions, tape measures, in ornamental containers. Photograph and picture frames, inkstands, fancy blotters, book ends.

Cork carpet, felt-base floor coverings, linoleum, oil baize, and other oilcloth and leather cloth being fabrics with a cotton base other than oilskin. Artificial flowers, foliage, and fruit and articles incorporating them. Fur and other skins, dressed (except leather), including pieces and manufactures wholly or partly thereof. Hard haberdashery, whether finished or unfinished, such as studs, hair-clips, hairgrips, and hair curlers, buckles and parts thereof, etc.

Goldsmith's and silversmith's wares (including wares of platinum and articles of base metal whether plated or not) other than watch cases; jewelry and imitation jewelry. Musical instruments, including gramophones, pianolas, and other similar instruments and accessories, and component parts of musical instruments (other than sound heads) and disk records.

Perfumery and toilet preparations; toilet requisites of the following descriptions: Powder bowls or boxes and powder puffs, and parts thereof; nail polishers; nail clippers; nail cleaners and files; denture bowls. Pictures, prints, engravings, and photographs (other than maps, architectural or engineering designs, and hydrographic charts). Perfumed spirits.

Sports, games, gymnastic and athletic appliances, apparatus, accessories, and requisites therefor (other than untrimmed natural silkworm gut in hanks or

bundles), and parts thereof. Toys and parts thereof. Umbrellas and sunshades, walking sticks, canes, and whips, including parts and fittings therefor. Plumage, other than plumage of birds imported alive, and of birds ordinarily used in the United Kingdom as articles of diet.

Poultry and meat pastes, poultry liver (except raw liver) whether mixed or not; sausages, tinned, canned, or otherwise preserved; and meat pies. Biscuits. Caviar. Canned or otherwise preserved fish (the following): Crab, lobsters, oysters. Confectionery of all kinds and fruit, crystallized, glace, or metz, drained or otherwise preserved (including candied peel and ginger). Hops, hop oil, and extracts or other similar preparations made from hops. Vegetables, dried, other than peas, beans, and lentils.[19]

Goods from the United States which had been sent before the restrictions were announced piled up in the customs where they were subject to seizure because not covered by import licenses. But, on November 14, 1939, the Import Licensing Department of the Board of Trade announced that goods which had left its point of origin before September 12 would be released from control. From time to time, the Licensing Department made announcements that no licenses would be issued on certain types of goods. This had the same effect as a prohibition on importation.

Various additions to the list of imports subject to duty and higher rates also followed the outbreak of war in order to bring in needed funds to the British Exchequer. Excise taxes were raised as well. Rates on sugar, tobacco, spirits, wines, and beer were advanced. Some items, on the other hand, were added to the free list. Outstanding among these were pig iron, aluminum, aluminum alloys, and certain manufactures of aluminum.

Colonial Trade. An Emergency Powers (Colonial Defense) Order in Council granted to all British colonies, mandated territories, and any territory for the time being under the jurisdiction of the British government the right to control their foreign trade by the use of such devices as licensing of imports and exports and controlling foreign exchange. The colonies made some use of these powers especially against nonsterling countries. The United Kingdom, however, undertook a much broader program of co-operation with the colonies and the Empire.[20] She agreed, for example, to buy outright or to guarantee the prices of exportable surpluses of these regions. For example, she promised to buy all of Australia's surplus of wool, meat, dairy products, sugar, canned and dried fruits, as well as a substantial portion of wheat, lead, and copper. New Zealand's surplus of wool, meat, butter, and cheese was also to be taken, as well as all of Canada's surplus of copper, lead, zinc, and large quantities of lumber and bacon. Should such purchases have led to an excess supply,

[19] *Commerce Reports*, September 16, 1939, pp. 845–46. Where general headings are followed by specific items, the prohibition applies only to those items.

[20] Chalmers, Henry, "Foreign Tariffs and Commercial Policies during 1939," *Commerce Monthly*, February 3, 1940, p. 114.

they could be sold to regular customers throughout the world but at prices and under conditions determined in London by the British Ministry of Supply.

British-French Co-operation Up to June, 1940. As Allies, Great Britain and France entered, at once, joint programs intended to make the best use of the raw materials and other resources of the two nations. They agreed to pool their foreign purchasing, to peg the pound and franc in relation to each other, and to exempt certain goods from their respective restrictive laws. France undertook, beginning March 1, 1940, to waive her exchange control regulations and to import license requirements on specified goods coming from the United Kingdom and most of the British colonies and protectorates. The Dominions, however, were not to be included. Britain, in turn, applied her concessions to France, Algeria, and Tunis. These included the waiving of individual import licenses and the readiness to grant licenses on goods hitherto prohibited or restricted from all countries. They also agreed to undertake a buying program in the Balkans both for economic and military reasons. In general, these understandings remained in effect during the war and for six months thereafter.

Recent Developments in Great Britain. In 1940, all imports into Great Britain except live quadrupeds were subject to license. Luxury taxes of 33⅓ per cent or 16⅔ per cent ad valorem were imposed on a long list of domestic and imported commodities. In 1941, a number of minor tariff changes were made. The sterling area was extended to cover the territories under the control of the Council of Defense of the Empire, Iceland, and the Faroe Islands. This meant the extension of the general scheme of exchange control. Relationships with the United States were mainly in terms of Lend-Lease for a period of four and one-half years. Lend-Lease came to an end on August 20, 1945. Among other things it had included 1,997,448 gross tons of ships.

The victory of the Labor party in 1945 brought a series of changes in British economy, some of which were real and others merely recognition of conditions that had existed in all except name for a number of years. Among the changes were the nationalization of the Bank of England, of the coal-mining industry, of cable and wireless, and of civil aviation. All of these have a connection with international relations, too. Overseas aviation was already publicly owned through the medium of the British Overseas Airways Corporation. Another of the early postwar acts was the restoration of duties on a number of items such as machinery and accessories which had been removed during the war.

British statesmen who were taking inventory when the war ended realized certain conditions, namely, that the merchant marine had dropped from 40,000,000 to 19,500,000 deadweight tons; that British exports

which had amounted to £470,000,000 in 1938 had dropped to £257,000,000 in 1944; that half of the British overseas assets had been drawn upon and that sterling balances totalling $20,000,000,000 had accumulated in London to the credit of overseas customers; that, as the world's largest customer, Britain would have to increase her exports 75 per cent above those of the prewar period in order to pay for her imports.[21] In 1946, exports showed a decided improvement. It is interesting to note that about half went to other British countries and half to the rest of the world—a situation which was true likewise in 1938. Buyers in the order of their importance were: South Africa, India, Australia, Denmark, France, Eire, the United States, the Netherlands, Canada, Belgium, New Zealand, and Argentina.

On March 3, 1947, Great Britain and France signed a treaty pledging a fifty-year alliance, subject to the provisions of the Charter of the United Nations, to act jointly against any possible future aggression by Germany; to act jointly in the event that Germany defaults any of her economic obligations imposed by her surrender or in forthcoming peace settlements; and finally to "take all possible steps to promote the prosperity and economic security" of each other. This treaty was signed, dramatically enough, at Dunkerque, scene of Britain's greatest defeat and France's darkest hour.

FRANCE

The French Tariff and the War. Before World War I, France had the highest tariff level of central Europe and also the most complicated tariff structure. Various attempts to replace the tariff of 1910 were still unsuccessful, having only reached the drafting stage. In 1916, the government realized that the existing tariff which emphasized specific duties was bringing in a smaller revenue because of rising prices and depreciated exchange. Special wartime consortiums or associations of merchants and manufacturers were therefore set up to control the purchase and sale of certain types of foreign goods. In 1917 and 1918, treaties were signed with various countries to improve the state of French trade. The treaty with Great Britain permitted a reciprocal freedom of trade, while those with Italy, Switzerland, and Spain removed prohibitions on imported goods. In 1918, a decree increased the maximum tariff from 10 to 40 per cent through surtaxes while minimum rates were raised from 5 to 20 per cent. Some 411 tariff items were included—practically all manufactured goods.

In 1919, the licensing of products was continued and then the government returned to the use of the protective tariff through the employment

[21] *Britannica Book of the Year*, 1946.

of specific duties and a system of coefficients to be determined by an interministerial commission. The coefficient system consisted of multiplying the specific rates in the tariff of 1910 by a multiplier or coefficient of from 1.1 to 3 to bring about an official valuation for the war period as compared with the pre-war period. A coefficient of 3, for example, would mean an increase of 200 per cent. This system was considered a substitute for a general tariff revision which could not be carried through because of war conditions.[22]

The Tariff after the War. The Peace Treaty gave France various privileges in German trade without the need for reciprocity—a situation lasting until 1925–26 when a treaty was signed. In 1920, the coefficient system was abolished, and a tariff of prohibitory level was imposed on nonessentials. But the coefficient system was subsequently revived with some startling impositions—a coefficient of 7 and 8 was placed on metals, 2 and 6 on chemicals, 3 to 7 on manufactured goods, and 9 on hats.[23] But it must be remembered that where the price level increased as fast or faster, the coefficients were not always real increases. Between July 9, 1919, and December 31, 1922, the coefficients figured in 3,294 tariff changes according to estimates compiled by our Tariff Commission.

On April 7, 1926, existing rates were increased 30 per cent and again on August 14 by a similar amount. By 1927, the real basis of the French tariff became the commercial treaties with Germany, Belgium, Italy, Switzerland, and some fifty other countries. No less than 1,700 industrial items were affected by them, mostly by increases upon pre-war rates, although not to the extent intended by the French draft tariff.[24] In other words, about 70 per cent of her rates were bound by commercial treaties—that with Germany running until 1935. But the French undertook a different method for controlling imports, namely, the quota system. The year 1931, then, might be cited as the last year in which the tariff was the chief foreign trade instrument of French policy. The quota system, which we shall discuss in another chapter, soon covered over 1,000 industrial products and by 1936 included more than 3,000.

There was an attempt in 1927, following a three-year study by a special commission, to frame a new tariff. The bill provided for maximum and minimum rates—the former to be about three times the latter—and also the right, for purposes of negotiation, to go below the minimum rate. The rates covering about 1,800 items as compared with 654 in the law of 1892 were specific and represented higher rates on both manufactured goods and agricultural products. Raw materials continued to enjoy exemption from duty or were subject to low rates. Another provision au-

---

[22] Delle Donne, *op. cit.*, p. 144.
[23] *Ibid.*, p. 148.
[24] *Ibid.*, p. 123.

thorized the revision quarterly if a variation in the general index of wholesale prices attained the figure of 20 per cent or more.[25]

The French Tariff from 1936 to September 3, 1939. Following France's devaluation of her franc in September, 1936, and her joining the tripartite agreement with the United States and Great Britain whereby the exchange stabilization funds of the three were to seek to keep to a minimum the fluctuations in exchange rates, her import duties on a number of commodities were reduced by a horizontal cut. But during the next year she found it necessary to restore the rates as well as to raise others in order to increase her revenue. Again in 1938, her duties were raised along with the duties on imports into her colonies. But toward the end of 1938, business conditions began to improve. This improvement persisted in the early months of 1939, and French leaders were faced with something of an inflationary movement. A certain optimism was apparent even in the face of the European situation. Near the end of July, sixty important quotas—one-fifth of the total in force—were suspended.[26] This was undertaken not only in the interest of simplifying administration but also to start a movement toward freer commercial intercourse. Some of the items were confectionery, varnishes, and paints, made-up clothing and underclothing, printing presses, insulated wire and cables, phonograph records, asbestos and its manufactures, barometers, and lenses. Preferential treatment to certain Yugoslavian exports were accorded by France as well in return for other concessions. In May, 1939, a stricter control was exerted over imports from Japan other than silk and camphor because of the heavy adverse balance of trade and the unwillingness of Japan to make more exchange available for French products.

September 3, 1939—June, 1940. September 3, 1939, marked the declaration of war against Germany. Within a few months, French economic activities were under government control through some 2,000 decrees. By the middle of November an economic accord with Great Britain was announced for the duration of the war and for a period of six months thereafter. This accord, together with subsequent ones regarding financial policy and the joint-purchasing of war supplies in the United States and Canada, was based on some of the lessons of World War I such as the evils of competitive purchasing and independent attempts at raising loans and controlling exchange. The activities under the accords were not published, and no statistics have been published to show what was done. But, in view of the collapse in France in June, 1940, there was not sufficient time for any real commercial policy to assert itself. The eleventh-

---

[25] *Ibid.*, pp. 155–57.

[26] Division of Regional Information, Bureau of Foreign and Domestic Commerce, *Economic Situation in France in 1939*, mimeographed (Washington, D.C.: April, 1940), p. 6.

hour suggestion that Great Britain and France unite into one nation, which came within a few days preceding surrender, received no discussion at the time.

Prior to the armistice, France had published her list of contraband articles and invoked a law passed in 1938 which provided for national organization in time of war. This act provided for the establishment of syndicates to control the importation and distribution of imports and the fixing of the prices at which they were to be sold. About ninety of them were organized. Incorporated as joint-stock companies, they operated under the title of "National Groups for Importation and Distribution in Time of War." Their activities were subjected to ministerial control, and they were the issuing agents for import licenses required by individual importers.

During the early months of 1940, France concluded agreements with Turkey, the United Kingdom, Argentina, Spain, and Greece having to do with quotas and various financial matters. But their operation was curtailed by the events following June of that year.

Recent Developments in France. Fully liberated in 1945, France began a comeback into the ranks of major nations. One of her policies was to enter commercial treaties with other countries—Belgium, the Netherlands, Czechoslovakia, Great Britain, Sweden, Rumania, Yugoslavia, Norway, and Hungary. She ratified the Bretton Woods Agreement. She devalued her franc to a new rate of 119.107 to the dollar. She took advantage of credits of $550,000,000 available through the Export-Import Bank. In 1946, the same source advanced a new loan of $650,000,000. The French problem has been complicated by the fact that the pre-war exports of that country were mostly of a luxury nature calling for artistic hand skill which postwar Europe can ill afford. Accordingly, faced by a changing demand, France has relaxed more and more of her export restrictions which had covered thousands of items. She modified other government policies of long standing by such actions as abolishing the monopoly on playing cards.

On May 28, 1946, France and the United States signed a series of agreements in which they promised to work together for a freer flow of world trade. The agreements were significant in that they pictured commercial policies for some years ahead. A wide variety of topics were covered ranging from means of delivering to France an adequate supply of German coal to buying 750,000 tons of merchant shipping from the United States to the settlement of Lend-Lease. The French government informed the United States that a new French tariff was being prepared which would contain ad valorem rates only and would not increase the level of protection over that maintained before the war. The new tariff, moreover, was to serve as a basis for reciprocal trade agreements. France also announced

that she had decided to abandon her pre-war policy of protecting her producers with import quotas and price equalization procedures which she had used prior to the revaluation of the franc to facilitate exports. She pledged to abandon import controls when they were no longer essential to safeguard the equilibrium of her balance of payments and to achieve in an orderly way her plan of reconstruction and modernization. She indicated her determination to return trade to private channels, retaining for a period government procurement for equipment of public corporations and agencies and also for certain scarce items such as foodstuffs, steel, lumber, tires, and certain medical supplies. The French Supply Council in the United States was to use private channels to their maximum practicable use.

The two governments agreed to license freely and without royalty to the nationals of each other, on conditions of reciprocity, all former German-owned patents which have come into full possession of either government. Lend-Lease owed by France was fixed at approximately $720,000,000. The French government is to pay interest at 2 per cent per annum, payable July 1 of each year from 1947 to 1950, inclusive. Beginning on July 1, 1951, interest and principal will be paid in thirty equal annual installments. If extraordinary conditions, economic or political, arise during this period, payment may be postponed for such a time as may be agreed upon.

The two governments also reached a special understanding on United States moving picture films. At first sight, it might seem strange that, when major issues of reconstruction are at stake, two governments should talk about the movies. But United States films have played a major part in carrying over the world the story of the superior standard of living in this country and have been excellent salesmen of our products. A familiar remark before the war suggested that each foot of film we export sells one dollar's worth of our products. France promised to abandon all previous provisions on the subject and to set up a screen quota system under which motion picture exhibitors in France will be required to exhibit French films for a certain number of weeks out of each quarter and then be free to choose domestic or foreign for the remaining weeks. The first quota allotted four weeks of each quarter for French films.

The French import plan for 1946 was rather elaborate. All imports were divided into three groups depending on their importance and on which method of purchasing was to be followed. One group consisted of goods to be purchased by French government missions in the United States, England, Canada, and Germany. The second group was to be purchased through the *groupements d'importation.* These were associations of private traders working as a group to overcome current conditions of loading, shipping, transporting, and distributing goods in France. The

third group of commodities were to be purchased only through license. The goods were further divided in terms of the ministry or government department having general supervision over them—the Ministries of Supplies, Agriculture, Public Health, and Industrial Production. The last-named ministry controlled chemicals, minerals, motor fuel, textiles, leather, and many other products. Perhaps a few illustrations will make the plan somewhat clearer.

Suppose the products to be imported consisted of foods such as meat, sugar, milk, the cereals, fruits, vegetables, fish, and so on. Purchases would be under the Ministry of Supplies. The following division would be followed:

a) Mission: meat, sugar, milk
b) *Groupements*: wheat, secondary cereals, fats, cheese, eggs, dried vegetables, soybeans, citrus fruits, other fruits, fish (canned, fresh, and dried), tapioca, manioc, starches
c) Licenses: nothing

Or, again, if rubber and asbestos items were to be imported, supervision would rest in the Ministry of Industrial Production and the purchases would be divided:

a) Mission: rubber, ingredients, tires, industrial rubber articles, various products derived from rubber
b) *Groupements*: various products derived from rubber, asbestos
c) Licenses: ingredients, industrial rubber products

Here, it is to be noted, is a lack of clarity between the authority of each group. Window glass was to be purchased by mission only; paints and varnishes by license only.

In the second half of the year and as an outgrowth of our understanding with France, all purchases in the United States were to be made by individuals or *groupements* with a few exceptions still to be obtained by missions—edible oils and fats, molasses, wood and certain building supplies, and certain hospital equipment.

GERMANY

Introduction. It is not entirely accurate to proceed with the discussion of the German tariff as if it were merely a continuation of the history from 1870 to 1914 because postwar Germany up to 1933 was economically a different country—a country without Alsace-Lorraine, without colonies, and one burdened by a huge reparation debt. But in so far as an attitude toward protection remained, and subject to the limitations noted above, the laws can be reviewed.

Germany after World War I, as we have already seen, emphasized pro-

tection to agriculture and parts of dairy farming and had achieved a standard of agricultural prices higher than those in the world market. During World War I, Germany was virtually cut off from the world market and was compelled, even more than the other belligerents, to forbid exports of food and raw materials, to go on rations, and to do without many materials or to use substitutes. Postwar Germany was dependent up to 1924 on foreign supplies and therefore had removed her agricultural duties. In the case of manufactured goods, the pre-war rates had been moderate, and these were raised during the years 1922–23. For practical purposes, however, Germany was denied tariff autonomy for five years following the Peace Treaty, being compelled to accord the most-favored-nation treatment to the Allies and to the United States without being entitled to reciprocal treatment. She exerted such control as she could through the imposition of a licensing system which made every transaction in semi-manufactured and manufactured goods a separate one. In 1922, an increase of 50 per cent in rates was ordered in the form of a decree, and again in September increases in rates varying from 50 to 100 per cent were placed on items which had not been raised previously.

Revival of Protection after 1925. In 1925, an independent Germany once more returned to a protectionist policy in spite of the views of various economists. This marked the first general revision since 1902. The level of duties by 1927 was considerably higher in a number of instances than in 1913. Over half of the 946 headings in her tariff were revised. Most of the revisions concerned industrial products, but the emphasis on agricultural products was such as to cause the act to be called an "agrarian tariff."

Germany also entered into reciprocal agreements with Italy, Switzerland, Sweden, and France between 1925 and 1927, but any tendency toward freer trade gave way to the forces of depression and uncertainty following 1932. A general system of import control was established to prevent the flight of capital and to bring the amount of exchange available to importers into harmony with lower prices and incomes. Accordingly, the amount available was reduced to 75 per cent of that available in previous years. In March, 1932, it was reduced to 65 per cent, in April to 55 per cent, and in May to 50 per cent. The system lasted until 1934 when it was superseded by another one.[27] In 1933, Germany established a Foreign Trade Council for the purpose of promoting her trade, and by 1934 her trade showed an increase of 6 per cent in exports and a decrease of 13 per cent in imports. This was accomplished in part by the use of clearing agreements with European countries, but after a while other markets were needed outside of Europe.

[27] Heuser, Heinrich, *Control of International Trade* (Philadelphia: P. Blakiston's Son & Co., Inc., 1939), pp. 128–29.

Totalitarian Commercial Policies. In order to understand the conversion of Germany into a totalitarian state and to comprehend the aims of Nazism it is well to review for a moment the aims, aspirations, and political morality of mercantilism or nation building. The mercantilists, as we have been, sought to build their nation into a great state by use of such economic tools as treasure, goods, population, food, ships, colonies, and such political morality as was advocated by Machiavelli. They preached their jealousy of their most powerful neighbor as a necessary part of winning over popular approval.

Adolf Hitler, in much the same way, had sought to build Germany into a world power. He employed the same tools as the mercantilists—tools which he modernized and streamlined. He went further and exceeded Machiavellianism at its worst. This can be explained simply by the fact that while the mercantilists were *building* a nation he was *restoring* a nation that had previously been great—a task made more difficult because of the memory of World War I, the terms of Versailles, the League of Nations, and so on. His tools, therefore, had to be sharper, his propaganda bolder and more widespread, his jealousies more intense, and his hatred more bitter. Internally his people were not as meek as were the people in the days of the mercantilists. The people, then, had never tasted of much individual freedom. They had no labor unions, and they were accustomed to price fixing. Hitler, however, was faced with the problem of putting the Germans back into a mental state that would accept mercantilism. This he did through the smashing of unions, the restoration of price fixing, and many other aspects of mercantilism.

We have said that his tools were modernized and streamlined and sharper. Let us develop this thought somewhat further. The mercantilist emphasized treasure, balance of bargain, or balance of trade. Hitler emphasized these as well, employing confiscation, bureaucratic control of exports and imports, licenses, quotas, embargoes, and exchange restrictions. By cutting loose from world economy, he escaped the domination of world prices and made the most of the Lausanne Conference of 1932 which marked an end to reparations for the first World War. By the employment of barter arrangements, he was able to obtain certain basic supplies without the use of money or other exchange instruments.

The population of Germany was increased far faster than the mercantilists of old were able to envisage. This was done through inviting German nationals to return home, through the annexation of Austria, and through taking over numerous countries. In mercantilist fashion, too, state subsidies were paid newly married couples with the proviso that portions of the debt were to be cancelled as each additional child blessed the union. And then, too, according to newspaper reports, some of the more outspoken leaders are quoted to the effect that the production of children

was more important than marriage and that children born out of wedlock were not to be stigmatized.

An elaborate system of laws was enacted regarding food. Provision was made for the rationing of food, the use of substitutes, and the use of some products hitherto not eaten by humans. The annexation of other territory and the barter arrangements with South American countries also helped to supply the growing population.

Germany also built ships after 1933, especially the type that was once called the "airship" and is now called the "airplane." War moved from the trenches of the World War I into the air during World War II, and the modern country that claimed to be great in the mercantilistic sense had to train pilots and to rush planes off the assembly lines.

Hitler's ambition to regain the former German colonies can again be explained along the best mercantilistic lines, but, pending that day, he had been using the annexed adjacent territory in lieu of distant colonies—an arrangement more beneficial to his aims for European control, but less useful from the point of view of world domination.

Germany and the Versailles Treaty. We must now go back to the question of why the Germany of 1933 needed to be rebuilt through mercantilistic means. Was it not already a great nation? The background of this question was well known to the previous generation but not familiar to the present generation and therefore deserves some expression. Let us go back to the period of the Versailles Treaty. Under the terms of that treaty and in violation of the spirit of President Wilson's Fourteen Points which served as the basis for the Armistice, Germany was forced to surrender all of her colonies—a total area five-and-one-half times the area of the mother-country with a population of 15,000,000. Strategically situated over the globe and in zones different from European Germany, these colonies had been the source in 1913 of some 5,000,000,000 marks' worth of exports to the mother-country. Cotton, wool, oils and fats, hides, lumber, tanning materials, hemp, rice, tobacco, grains, tropical fruits, etc., represented over half of this amount. The loss of territory in Europe—of Alsace, Lorraine, and the Saar region to France, of portions of Silesia to Poland—meant the giving up of another 6,000,000 inhabitants and the sacrifice of 26 per cent of her zinc ore and 25 per cent of her blast furnaces as well.

Before the Peace Treaty, moreover, Germany surrendered a great deal of movable property to her neighbors—5,000 locomotives, 150,000 freight cars, 5,000 motor lorries, and 58,000 agricultural machines. France and Belgium received 700 stallions, 35,000 fillies and mares, 4,000 bulls, 140,000 milch cows, 1,200 rams, 120,000 sheep, 10,000 goats, and 15,000 sows.

The great German navy was reduced to a point where it was depleted

of all of the merchant ships of 1,600 tons or more, half of those between 1,000 and 1,600 tons, and one-fourth of her trawlers and fishing boats.[28] Her once almost invincible fighting navy was limited to a force the size of the New York City police department.

Now while we are not passing judgment on the treatment accorded Germany nor the question of war guilt, we merely want to point out that none of the above was credited to reparations and that a great Germany of 1913 found herself at the end of the war to be a poor country judged on mercantilistic standards—poor in treasure (in fact, bankrupt by 1923 when she repudiated her banknote issue which had reached the astronomical figure of 496,507,424,772,000,000,000 marks); poor in goods, subject to unfavorable treatment in the world markets, and with a much smaller population; poor in food, almost lacking in ships, and totally lacking in colonies.

Totalitarian Trade Methods. Lacking colonies, Germany turned, more and more after 1933, to her weaker European neighbors for food and raw material supplies. In so doing, she not only got away from problems of ocean transportation but was able to make her purchases on her own terms and thereby exert a control over the production and general economy of her neighbor. In other words, she had the economic benefit of colonies without the political responsibilities. By means of foreign exchange control, emphasis on the country-of-origin of imports, barter deals, and credits and loans which had to be used for German goods, she was able to dictate what goods the surrounding countries should grow or process for her. In September, 1939, then, she was prepared for a war and a blockade even though half of her foreign trade was at stake. Another factor was the lack of oil, rubber, coffee, etc., which were not produced in her economic orbit. These she had been obtaining through barter and other agreements from the Latin-American countries. For example, after March, 1938, and the expropriation of oil properties, Germany, together with Italy, was getting Mexican petroleum on a barter basis. Other barter arrangements had been made with Brazil, Ecuador, Chile, Peru, some Central American states, and China. The German experiences since August 1, 1939, cannot, however, be measured statistically since no figures can be had regarding the terms of barter agreements. In the subsequent months, the annexation and control of one neighbor after another served to give Germany an opportunity to rid herself of tariff and all remaining economic barriers which had existed against her exports previously. Her raw material position was likewise improved, although a great amount of synthetic materials and substitutes (Ersatz) had to be introduced.

[28] Douglass, Paul, *The Economic Dilemma of Politics* (New York: Europress Co., 1932), pp. 12–15 and *passim.*

Condliffe offers a splendid summary of the totalitarian trading methods:

> . . . . thrusting the financing of trade on to the financially weaker countries, depleting their foreign exchange reserves, depreciating their external credit, pressing down the external value of their currencies, spoiling their export markets by the dumping of surpluses, and raising their domestic price levels, Germany was playing for much more than a mere temporary advantage in current trade. In the totalitarian conduct of trade policies, by using the methods of discriminating State monopoly, the German authorities were doing much more than establish a "bilateral equalization" at the expense of the German consumers. They were, in fact, building a new trading system, the center of which was the German military economy—a bilateral system in which all the traffic should flow to and from the center. This system was not designed to broaden into multilateral interchange in which there would be room for all the great trading countries to cooperate. It was designed to supplant and destroy the world trading system that Great Britain had built up and that the United States was trying to revive. Its methods are best understood when compared with those by which great monopolistic corporations have attempted, by horizontal and vertical integration to destroy the trade of their competitors. In such struggles for power, full use is made of discriminatory prices, dumping, massive raw material purchases, and even of terrorism. While the struggle is in progress, the smaller traders who supply materials or purchase the finished products may gain substantial advantages; but the achievement of even a partial monopoly advantage by one of the great competitors is apt not only to deprive them of such advantages, but to put them in a position where they must pay tribute.[29]

The Consolidated Customs Law of 1939. Effective April 1, 1939, Germany framed a complete tariff law, a consolidation of all the laws which had preceded from the establishment of the German Empire to that date. The law was divided into five parts: the legal and structural basis of customs organization; the law of customs obligations; the law of customs procedure; prohibitions; and transitional and definitive provisions. There were not many changes in rates. Rather, the emphasis was upon the setup of the customs, their incidence, measure, methods of collection, and various schemes of trade restrictions.

Present Status of Germany. On May 7, 1945, German officers signed the Allied terms of unconditional surrender. A month later Germany was divided for an indefinite period into four military zones to be administered by the United States, the United Kingdom, France, and Russia. Greater Berlin was placed under joint supervision and administration. The Potsdam Declaration of August 2, 1945, reduced Germany by all of the Nazi annexations after 1939 and all former territory east of the Oder and western Neisse rivers. It also provided that Germany was to pay repara-

---

[29] Condliffe, *op. cit.*, pp. 261–62.

tions by the delivery of gold, all foreign assets, and all machinery and equipment used in the manufacture of arms and munitions, ocean shipping, synthetic ammonia and gasoline, airplanes, aluminum, magnesium, synthetic rubber, and other industries of military importance. The total amount was to be determined in 1946 and was to be removed from Germany by 1952. The effect on Germany's exports which were essentially of the manufactured type may be easily pictured. But it is believed that by 1948, there will be sufficient exports to pay for the absolutely necessary imports. In view of these conditions, it may be concluded that Germany today has no commercial policies and will not have any for years to come.

SUMMARY

World War I laid the foundation for a new protective movement in Great Britain. The steps were the McKenna duties of 1915, the British preference system of 1919, the Dyestuffs Importation Act of 1921, the Import Duties Act of 1932, the Safeguarding of Industries Act of 1933, and similar laws. During World War II numerous restrictions were imposed on exports and imports. All forces were harnessed in terms of economic as well as military warfare. A large degree of autonomy was granted all British colonies in the case of their foreign trade. With the end of the war, the British Labor party came into power, but this has made no changes in the tariff.

The French tariff was raised during World War I by a series of surtaxes rather than by tariff revision. In 1920 this system gave way momentarily to a very high tariff. Then surtaxes were restored with increasing rates in subsequent years. A horizontal cut in 1936 was restored in September, 1939, when France was again plunged into war. During the war period up to the time of the French collapse, economic activities were controlled by some 2,000 decrees.

The German Republic which resulted from World War I did not have a free hand in tariff matters until 1925. Then a protectionist system was installed. During the thirties, all sorts of control were placed on commerce to conserve the foreign exchange supply. Under Hitler, the German market was more or less isolated from world influences. In 1939, a complete tariff law was framed which consolidated the laws from 1870 on. This was one of the last German peacetime acts.

QUESTIONS FOR DISCUSSION

1. Describe the reversal of trend in British tariff policy after the first World War.
2. In *Tariffs: The Case Examined,* what changes in economic conditions are noted to have occurred between 1903 and 1930? What is the attitude of the authors toward protection? With what arguments do they support their

views? What interesting comments are made on reciprocity in tariff reduction? What do you think of this point of view?

3. What were the important features of the Import Duties Act of 1932? Discuss the international implications of this formal renunciation of free trade.
4. What were the purpose and results of the Ottawa Conference?
5. Discuss the commercial problems faced by Britain with the outbreak of war in September, 1939, and indicate the steps taken to meet these problems.
6. Outline briefly the French tariff policy between 1914 and 1939. What was the "coefficient system"? When and for what purpose was it used?
7. How did the results of the first World War condition German tariff policy until 1925? What changes were made in 1925?
8. Since 1933, German commercial policies have followed the pattern of a "modernized and streamlined" mercantilism. Explain, referring in your answer to each of the mercantilistic "tools" discussed in Chapter XIII.

CHAPTER XIX

POLICIES OF OTHER EUROPEAN COUNTRIES AND RUSSIA

SWITZERLAND

The Swiss Tariff. By 1888 Switzerland was a country with a well-defined protectionist policy. But still higher protection was voted in the act of 1891 which remained in force until 1906. The tariff of 1906 is sometimes referred to as the "Law of 1902." The former date is the year when the rates became effective, while the latter date is the year in which the act was passed. This law represented an increase of 50 per cent in the rates on manufactured goods, as well as substantial increases in agricultural rates. It was the outgrowth or synthesis of the views of three associations whose advice had been asked by the government—farmers, manufacturers, and traders. The increase in the number of tariff items over the law of 1891 is interesting. The latter contained 476 items, while the law of 1906 listed 1,164 items. The act of 1906 remained basic until 1921.

The act of 1921 made some far-reaching changes. Rates on semimanufactured and manufactured goods were raised to higher levels. The government's monopoly in the purchase of wheat and rye which had been introduced in 1915 was retained, while the rates on livestock and animal foodstuffs were raised. Up to 1931, the tariff structure remained essentially the same. In that year, with imports of agricultural products exceeding those of 1929 by 25 per cent and with the depression of the thirties asserting itself, resort was had to further protection and trade restrictions.

The Position of Switzerland. J. B. Condliffe offers the following excellent comment on Switzerland:

> The experience of Switzerland is illuminating in regard to the pressure of autarkic systems upon a small country with a traditionally liberal trading policy. Switzerland is an economic island. Its four million people inhabit a small inland territory, much of which is mountainous. Few of the raw materials of modern industry are found within its borders. For centuries, therefore, the Swiss have striven to build friendly and profitable trading connections with the outside world. At one time their young men sought service as mercenaries; but the development of international trade in the nineteenth century opened up expanding markets for the products of Swiss craftsmanship. Population and wealth grew as trade was extended, and Switzerland became a center of bank-

ing and financial organization. It is not surprising that practically every Swiss economist who has written on the subject has declared autarky to be a "policy of suffocation."

There are also strong political and social reasons to explain why Switzerland should have embarked in recent years with considerable reluctance and misgivings upon a policy of regulated and reciprocal trade. Composed of linguistic and confessional groups whose only common link is their citizenship and participation in a strong democratic tradition, organized in a federation built upon strong cantonal patriotism, and surrounded by powerful neighbors, the Swiss have always endeavored to derive strength from their weakness. Democratic toleration inhibits disunity, neutrality preserves their independence, and local patriotism checks undue centralization of power in the hands of the federal government.

Yet, in 1931, suffering from the effects of the Hawley-Smoot and other tariffs, and more immediately from the depreciation of sterling, this little country was forced into taking bold measures of trade regulation, including the abandonment of most-favored-nation treatment, the adoption of quantitative import controls, and the frank prosecution of a reciprocal policy, "cashing in" on the high purchasing power of the country. In so doing it took what the experience of other countries has since shown to be a pioneer step towards preserving as great a degree of trading freedom as was practical in the circumstances. Quotas were chosen in preference to exchange control and as a means of bargaining for reciprocal concessions. Clearing agreements were made at a later stage in order to collect some payments on defaulted debts. But there is much evidence to prove that Switzerland endeavored to conduct a restrictionist policy, when it was forced upon her by necessity, in a liberal spirit. The most-favored-nation principle was renounced, but reciprocal bargaining was conducted in an effort to preserve and extend trade outlets. Switzerland is one of the few countries employing the new protectionist methods with which the United States has found it possible to negotiate a bilateral trade treaty based upon equality of trading opportunity. Efforts were made, in 1937, after the negotiation of the Tripartite Agreement and the devaluation of the Swiss franc, to liberalize the quota system and even to revive the capital market. There is little reason to doubt repeated statements that the new measures of trade restriction were for Switzerland a necessary evil, that every opportunity of relaxing them has been seized upon, and that public opinion is categorically in favor of their abolition whenever international pressures may permit.[1]

Conditions Up to 1940. Trade control devices persisted after 1934. By 1935 there was a quota on practically every foreign product. "Protection in Switzerland was thus carried to extremes not attained in the other important quota countries."[2] By 1936 clearing agreements were in effect with ten countries in order to facilitate the exchange of goods in the face of financial difficulties. When conditions improved near the end of the

[1] Condliffe, J. B., *The Reconstruction of World Trade* (New York: W. W. Norton & Co., Inc., 1940), pp. 161–63. The term "autarky" means the art of being self-sufficient economically.

[2] Heuser, Heinrich, *Control of International Trade* (Philadelphia: P. Blakiston's Son & Co., Inc., 1939), p. 23.

year following the devaluation of the Swiss franc, quotas were withdrawn wherever possible. The tariff, which assessed duties by weight, remained the chief source of Swiss revenue, producing 73 per cent in 1934, 70 per cent in 1935, 62 per cent in 1936, and 58 per cent in 1937.

Conditions in Switzerland became much more acute as the totalitarian countries became stronger. She was "economically a besieged fortress."[3] Her position was less favorable than during the first World War, when Italy, France, and Great Britain were allies and when ocean and land routes were still open to shipments. The Rhine traffic, which accounted for one-third of Swiss imports by volume, was disrupted, while the Greek ships which carried Swiss commerce were no longer available after the collapse of that country. Resort was had to the ships of Spain, Panama, and Yugoslavia. Another factor in Swiss economy was the near cessation of tourist trade, which had long been a major Swiss "industry." The hotel industry alone represented an investment of 2,100,000,000 francs. Bad as the trade was in 1939, it had dwindled to one-fourth of normal in 1940. New import taxes were assessed at the beginning of 1939 on various foodstuffs and edible oils and fats. Toward the end of the year, practically all exports were made subject to export permits and export duties. The latter ranged from 1 franc to 10 francs per 100 gross kilos. Import permits also became important.

Early in the war, Britain set up a blockade against all shipments bound for Germany, Italy, and the occupied areas of Continental Europe, virtually closing off the Mediterranean and most of the Atlantic coast. Lisbon became the main port from which Switzerland could be supplied. This blockade, of course, proved a barrier even more effective than the restrictions; but instead of promoting home industry, the effect was to cripple the internal economy. Most raw materials, foodstuffs, and other products were rationed. All milk and wheat had to be turned over to the government at fixed prices. The use of wool, the fatty content of soap, and waste products were subject to law. The shortage of fodder led to the slaughter of the poorer animals. Numerous other similar examples could be cited to show the perilous position of a neutral and nonmilitarized country in time of war.[4]

Swiss Trade Relations. The normal trade relations of Switzerland have been primarily with neighboring countries, such as Germany, France, Italy, Belgium, and the Netherlands. There was also trade with the United Kingdom and some with Czechoslovakia and Austria, as well as with the United States and Argentina. The relative importance of each country is shown in Table 9, wherein the percentage of Swiss exports and imports

---

[3] International Reference Service, *Economic Conditions in Switzerland in 1940 and Early 1941* (Washington, D.C.: U.S. Government Printing Office, 1941), Vol. I, No. 32.

[4] This account is based on the pamphlet just cited.

are given in terms of these countries. Just which of these old relationships will be restored and what new ones will be established remains problematical.

TABLE 9

Swiss Trade Relations, 1931–39

Year	Exports Percentage to—					Imports Percentage from—				
	U S	U.K.	Ger.	Fr.	Italy	U S.	U K.	Ger	Fr.	Italy
1931. .	6.9	17.7	14.6	11.5	6.9	7.1	4.0	29.7	15.9	8.1
1932.	7.2	11.3	13.9	14.1	8.9	6.7	4.5	29.1	14.6	8.3
1933 . .	7 0	10 7	16.7	14.9	8.4	5.8	5.8	29.6	14 1	8.5
1934.	5.8	10 2	22.1	12 6	8.8	5.4	6.4	27.4	15 1	8.2
1935. .	6.1	9.7	21.4	12.2	8 8	5.5	6.1	26.8	14 6	6.8
1936. .	8.0	11.1	19.4	13 0	7 0	5.7	6.1	24.8	14 7	6.6
1937. . .	8.8	11.2	15.6	10 8	7.9	7.0	6 1	22.3	14.5	6.5
1938. . .	6.9	11.3	15.7	9.2	6 9	7 9	5 4	23.3	14.2	7.3
1939. .	10.0	12.7	14.8	9.4	6 2	7.1	5.3	23.4	14.5	7.2

United States Trade with Switzerland. The most important Swiss export to the United States has been watches, watch movements, and jewels for movements.[5] In 1929 they amounted to almost 30 per cent of the exports, and in 1935 to 38 per cent. The next largest export in terms of value in 1929 was cheese, but coal-tar dyes assumed second place later on. In 1935, the watch, coal-tar dyes, cheese, and cotton-cloth exports accounted for almost 70 per cent of the total sales of Switzerland to this country. Table 10 shows the quantities of these and other items sent us in 1929, 1935, and 1938.

TABLE 10

Some of the Principal United States Imports from Switzerland, 1929, 1935, and 1938

Commodity	Unit	Quantity		
		1929	1935	1938
Watches and movements	Thousands	5,074	1,200	2,394
Cheese	1,000 lbs.	18,839	5,870	9,024
Coal-tar dyes	1,000 lbs.	2,581	2,386	1,150
Cotton cloth	1,000 sq. yds.	14,662	6,760	5,666
Aluminum metal, scrap, and alloys	1,000 lbs.	5,365	3,201	2,677

SPAIN

Introduction. The Spanish tariff on the eve of the first World War was notoriously high. Although agricultural interests were not protec-

[5] Postwar conditions compelled the Swiss government to establish a rigid control over the watch industry for three years beginning January 1, 1946. The sale, manufacture, exportation of watches and watch parts, watchmaking machines, the opening of new watch concerns, the expansion, transformation, or enlargement of existing ones, and watchmaking in homes are all stringently controlled.

tionist in spirit, the rates on industrial products were the highest in Europe except for those of Russia. The tariff, moreover, was quite inclusive, consisting of 718 different classifications. In structure the law provided for two columns, under the captions, "First Tariff" and "Second Tariff," the latter being considerably lower for countries favorably treated by Spain.

During the war Spain was one of the few neutral countries in Europe. Her location near the seat of the war was favorable, and the country not only became wealthy but also built up a number of infant industries. To protect these new industries in the postwar period of readjustment, Primo di Rivera sponsored the tariff of 1922. Highly protectionist in character and covering over five hundred classifications, it might be looked upon as the beginning of a number of laws intended to restore Spain to the ranks of the great industrial and commercial nations. In a very true sense, the country famed for her mercantilism of an earlier period was once again seeking national greatness through economic means. In 1924 a law bearing the appropriate title, "Law for the Encouragement of Spanish Industry," provided a duty-free period of five years on raw materials and semimanufactured products required by newly established industries. In 1926, additional duties were assessed on a long list of commodities, while in 1930 the government took control of the basic food supply in the interests both of the farmers and the working population. This law, reminiscent of the corn laws, prohibited the importation of wheat and wheat flour except when the price of the former exceeded for one month 53 pesetas for 100 kilos in the regulating market of Castile. Then, subject to the authority of the Council of Ministers, importation was to be allowed. In addition, the government was empowered to fix the prices of grain, flour, and bread. To this end an elaborate system was set up requiring sworn statements from every wheat grower before October 1 of each year revealing the amount of grain stocks on hand and the amount of wheat he had harvested. Similarly, control was exerted over millers and other grain handlers.

The duty on wheat and grains, when importation was permitted, was high. The rates on wheat were 42 pesetas per 100 kilos on the First Tariff and 14 pesetas (76 cents per bushel) on the Second Tariff. Other rates were 48 and 12 pesetas on rye (61 cents per bushel); 48 and 12 pesetas on barley (52 cents per bushel); and 40 and 10 pesetas on maize (48 cents per bushel). Wheat flour was subject to 63 and 21 pesetas, depending on the First or Second Tariff. The United States enjoyed the rates of the latter, which meant a duty of $3.72 on a barrel. Other countries subject to the lower rates included the United Kingdom, Canada, Argentina, Brazil, Austria, Belgium, Norway, Sweden, Denmark, Finland, France, Italy, Germany, the Netherlands, Switzerland, and Japan. Australian and Greek

exports paid the higher rates.[6] That the Spanish tariff stressed protection at the expense of revenue may be concluded from the fact that, high as the rates were, customs brought in but 10 per cent of the government's revenue in 1933, 1934, and 1935.

Civil War: 1936–39. The Spanish Republic was established in 1931. It was overthrown, and Spanish development was given a fearful setback by the civil war which raged for two-and-one-half years between 1936 and 1939. From a position of high self-sufficiency of food supplies—wheat, rice, barley, flour, and sugar—Spain became an importer of food. While in 1935, the last full year of peace, food imports accounted for 14 per cent of her total imports, in 1939 they had risen to 42 per cent. In *Commerce Reports*, the Spanish situation after 1939 has been well summarized:

> On the verge of economic prostration, efforts were directed toward a rehabilitation and reconstruction of the economic system to repair the material damage to the agricultural, industrial, commercial, transportation, and financial structures of the country. The wheels of industry were retarded by shortages of raw materials (cotton, coal, fertilizers, etc.), capital equipment and skilled labor, while the general economy suffered from a break-down of transportation facilities and a lack of exchange to pay for its import needs. The exchange shortage was primarily the factor in the emergence of bilateral compensation as a commercial policy, under which Spain limited imports from any country, as far as possible, to the value of its exports to that country. Above all this, was a serious depletion of food supplies, necessitating heavy imports, despite strict rationing and price-fixing of many food products.
>
> Finally, the outbreak of the European war had a retarding influence upon Spanish recovery, restricting markets and supply sources, and limiting shipping facilities for both imports and exports.[7]

Self-Sufficiency. Once again self-sufficiency became the keynote sounded for the future of Spain. The government became insistent that the Spanish people rely on their own resources and refrain from buying luxuries such as foreign moving pictures. Severe restrictions on exchange and the necessity for permits from the Tariff Policy Section of the Ministry of Commerce and Industry brought about a degree of trade control of an almost unparalleled nature. Each importer had to make an application for a permit, giving a full description of the goods, its value in Spanish money and in the money of the country of origin, the customhouse through which importation was to be made, and the method of payment. This application then passed through a number of hands and could not be approved finally until the necessary exchange could be

[6] *Handbook of Foreign Tariffs and Import Regulations on Agricultural Products*, Trade Promotion Series No. 131, Department of Commerce (Washington, D.C.: U.S. Government Printing Office, 1932), pp. 154 ff.

[7] *Commerce Reports*, September 28, 1940.

found so that payment could be assured. Strangely enough, exchange for United States products of an industrial nature were "hard to find." As a result, only raw materials could be purchased from this country. Previously, our sales had consisted of such products as automobiles and trucks, tires, office equipment, and mining machinery.

Spanish Trade Relations. The principal customers of Spain in their order of purchases were the United Kingdom, France, Germany, the United States, and Argentina. The United States occupied the position of

TABLE 11

Spanish Trade Relations, 1932–35

Year	Exports Percentage to—					Imports Percentage from—				
	U S.	Arg.	Fr.	Ger.	U.K.	U S.	Arg.	Fr.	Ger.	U.K.
1932	7.0	5.3	18.4	8.9	25.8	16.4	6.0	7.6	10.3	10.6
1933	8.0	4.0	20.1	8.9	23.5	16.4	2.4	7.6	11.5	10.0
1934	8.5	3.7	15.7	11.2	23.2	17.1	2.2	7.8	11.5	10.1
1935	9.5	5.4	11.7	12.7	21.7	16.8	2.5	5.5	13.7	10.4

principal supplier and was followed by Germany, the United Kingdom, France, and Argentina. Table 11 shows the trend of Spanish trade relations between 1932 and 1935.

United States–Spanish Trade Relations. Table 12, which shows our exports to Spain for the years 1929, 1937, and 1938, indicates the nature

TABLE 12

Some of the Principal United States Exports to Spain, 1929, 1937, and 1938*

Commodity	Unit	Quantity		
		1929	1937	1938
Raw cotton	1,000 bales	269	....	3
Gasoline, other motor fuel	1,000 bbls.	1,370	823	2,052
Automobile tires	Thousands	118	...	4
Unmanufactured tobacco	1,000 lbs.	12,929	19	8
Boards, southern pine	1,000 bd. ft.	38,661	....	16
Pig iron	Tons	...	10,492	350
Tinplate	1,000 lbs.	...	303	16,025
Accounting and calculating machines	Number	1,368	....	12
Typewriters	Number	15,337	5	16
Passenger automobiles	Number	7,264	3	26
Motor trucks and busses	Number	6,131	26	2,498
Motion picture films	1,000 lin. ft.	8,073	65	284

* *Foreign Trade of the United States, Calendar Year 1938.*

of the products and the effects of tariff retaliation following the Hawley-Smoot Act, the depression, and the Spanish Civil War—15,337 typewriters,

for example, were exported to Spain in 1929, 5 in 1937, and 16 in 1938. Value figures tell the same story. A depression market in 1932 witnessed sales to Spain by our exporters totaling $26,688,000, but this figure dropped to $6,012,000 and $12,266,000 in the Spanish Civil War years 1937 and 1938. In 1939 the figure rose to $26,743,000, as compared to an average of $34,-150,000 for the years 1931–35 and $73,644,000 for the years 1926–30.

Our imports of Spanish goods have shown a somewhat similar decline from $13,806,000 in 1937 to $9,157,000 in 1938 and to $10,207,000 in 1939. Table 13 gives figures showing the quantities of imports from Spain for the years 1929, 1937, and 1938. It may be noted that Spain remained essentially an exporter of raw and partly processed materials—fish, hides and furs, nuts, vegetables, olive oil, and cork.

TABLE 13

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM SPAIN, 1929, 1937, AND 1938*

Commodity	Unit	Quantity		
		1929	1937	1938
Corkwood	1,000 lbs	16,232	14,367	7,231
Cork waste	1,000 lbs.	32,770	19,871	2,007
Sheep, lamb, goat, and kid skins	1,000 pieces	2,232	641	58
Fish	1,000 lbs.	5,004	2,083	2,145
Onions	1,000 lbs.	42,281	64	....
Olives in brine	1,000 gal.	5,642	4,881	5,379
Olive oil, edible	1,000 lbs.	16,512	10,623	5,216
Almonds	1,000 lbs.	14,403	1,518	583
Paprika	1,000 lbs.	5,463	4,056	956
Wines	1,000 gal.	13	565	503
Pyrites	1,000 tons	446	482	304
Castile soap	1,000 lbs.	1,145	13	3
Mercury	1,000 lbs.	715	535	95
Argols, tartar, and wine lees	1,000 lbs.	2,074	116	53
Iron oxide and iron hydroxide pigments	1,000 lbs.	13,724	7,323	4,082
Chloride of potash	Tons	19,282	..	12,733

* *Foreign Trade of the United States, Calendar Year 1938.*

Encouragement to Industry after the Spanish Civil War. Toward the end of 1939 two significant laws became effective. One provided for the government sanction of all new industries or the increase in the productive capacity of old ones. Petitions for either purpose were to be presented to the Chief Engineer of the Provincial Office of the Ministry of Industry and Commerce, together with a full explanation of the purpose, capital, and whether domestic or imported materials were to be used. Among the first petitions presented were those having to do with typewriters, cotton thread, and woolen yarn. The company wishing to produce typewriters was to have a productive capacity of ten each work-

ing day. It promised to use all Spanish materials except rubber and type.

The other law took the form of a government guarantee of minimum earnings of 4 per cent on the capitalization up to 1,000,000,000 pesetas of all new industries or enlargement of old ones of "national interest." The life of the guarantee was fixed at fifteen years subject to five-year renewals. Should earnings exceed 7 per cent, however, one-half of the excess was to go to the government. Industries with a national interest were also given the right of forceful expropriation of land, reduction in taxation up to 50 per cent, and reduction in customs duties on machinery and equipment when such was not obtainable in Spain.

In May, 1940, a ten-year plan was announced for the making of a self-sufficient nation. Entrusted to a military man, described as "hard-boiled," Colonel Luis Alarcon de la Lastra, the nationalization of industries such as the automobile industry; a governmental war on wasteful methods; a prohibition on the export of iron ore; the use of synthetic fibers to escape dependence on foreign cotton or the necessity of growing cotton in Spain; the finding of substitutes for jute, paper, rubber, oils; and the extension of maritime service have been placed on the agenda.

Recent Economic Conditions in Spain. Increasing control by government in the daily affairs of its people, a continued weakness in the foreign exchange position, a lowered standard of living resulting from the insistence on self-sufficiency, poor crops, rising prices, and a disrupted labor supply are some of the conditioning factors in Spain's immediate future. The government took over the railroads in 1941; but there has been little gain in efficiency of operation, which is still below that reached before its Civil War. The merchant marine has grown to a gross tonnage of 1,037,938. It is interesting to note that barter agreements with Switzerland, Denmark, and Russia are still resorted to in the face of the scarcity of foreign exchange. It is likewise noteworthy that one element of the population views the attempt at industrialization with misgivings because of Spain's position in the world.[8]

THE NETHERLANDS

Introduction. The tariff in force in the Netherlands on the eve of the first World War had been passed in 1907. It was a continuation of the simple revenue system adopted many years before. The ad valorem rate on most items was 5 per cent. There were some articles subject to specific duties as well.

In common with other countries, the Netherlands found it necessary to impose various trade restrictions in the postwar period. The tariff of 1925 covered over 150 classifications. The typical ad valorem rate was 8

[8] For a remarkably vivid picture of conditions in 1945, see *Foreign Commerce Weekly*, June 22, 1946.

per cent, although some commodities were subject to 12 per cent and some to 20 per cent. Cigarettes were assessed 45 per cent ad valorem, while secret remedies paid 50 per cent. In recent years custom receipts have yielded about 14 per cent of total government receipts. One of the curious provisions of the Dutch tariff has been the assessment of duties on products in small quantities—for example, packages containing less than 2½ pounds and the exemption of the same products when in bulk. This has been significant in United States trade relations because the Netherlands have been the largest Continental customer for United States wheat and wheat flour, as well as a large buyer of rye, barley, and rice.

During the years of depression, 1931 and thereafter, the government extended aid to producers of wheat, sugar beets, livestock and meats, and dairy products in the form of import restrictions, production control, and subsidies. Milling restrictions were imposed by a law which gave to the Minister of Agriculture the right to regulate the flour industry and to forbid the possession or transportation of any flour failing to come up to his specifications. In this way, he could order that all flour be blended in such a manner that 20 per cent be of domestic growth and production and 80 per cent foreign. From time to time, this ratio has been changed.

On January 1, 1932, all ad valorem rates and some specific rates were increased by 25 per cent. This was considered an emergency measure and was to expire on December 31, 1934. Among the items increased were vegetable oils, pork and bacon, honey, crackers, yeast, preserved milk, and so on. Rates on beef were doubled, and those on horse meat increased from 10 per cent ad valorem to 12½ per cent.

On September 26, 1936, the Netherlands placed an embargo on gold and left the gold standard. A noticeable improvement in trade took place, but the government found it necessary to institute a strict policy of price control, not only for such commodities as wheat flour, bread, margarine, cooking oil, milk, sugar, potato flour, starch, butter, edible fats, eggs, vegetables, cheese, rye flour, meat, and house fuel, but also for other goods, services, and rents. This reflected itself in its policy on exports and imports.

Netherlands Policies until World War II. By 1938, there were many quotas in force as a result of the renewal of the Netherlands Crisis Import Act which was to have expired on January 1 of that year. Previous laws had sought to control only imports which appeared excessive, but the new law was intended to protect Netherlands exports as well. In August much stricter control of both exports and imports went into effect. Foodstuffs became subject to monopoly control under government supervision.

Trade Agreements. The Netherlands entered trade or clearing agreements with Chile, Turkey, Italy, Bulgaria, Rumania, Finland, Germany, and the United States. Finland undertook to reduce import duties on flower bulbs, roots of decorative plants, biscuits and other bakery goods,

as well as to bind at the existing rates radio apparatus, tubes, and parts. In return for this, Finland was given increased quota allowances. The German agreement was a renewal of one expiring in 1939 and was to remain in force until December 31, 1940. The agreement was less liberal than the preceding one.

The Reciprocal Trade Agreement with the United States. The Reciprocal Trade Agreement signed by the United States and the Netherlands on December 20, 1945, provided for concessions by both countries. The Netherlands bound cotton, sulphur, copper, turpentine, rosin, borax, lubricating oil, fir and pine lumber, rolled oats, and cereal breakfast foods on the free list. Existing rates were bound on refrigerators, copy presses, apricot kernels, packaged rolled oats, rice, canned asparagus, typewriters, adding and bookkeeping machines, apples, pears, grapefruit, prunes, raisins, automobile tires and tubes, passenger cars, motor trucks, tractors, engines, chassis frames, leaf tobacco, and salted horse meat. Certain monopoly import fees were reduced; certain quotas were increased or clarified. The items covered represented between 35 and 45 per cent of our exports to that country.

We, in turn, granted concessions on sixty-three classifications to the Netherlands and her possessions. Of this number, forty-one were reductions and the rest consisted of items bound on the free list. Some of the reductions were on harvest hats, cigar wrapper tobacco, flower bulbs and numerous vegetable seeds, cocoa and chocolate, herring, barley, potato starch, and refined glycerin.

The Trade Relations of the Netherlands. The customers of the Netherlands during the thirties, in the order of their importance, were the United Kingdom, Germany, Belgium, France, Netherlands India, and the United States. The suppliers of the Netherlands, again in the order of their importance, were Germany, Belgium, the United Kingdom, the United States, Netherlands India, and France. These relationships are shown in Table 14.

TABLE 14

DUTCH TRADE RELATIONS, 1931–39

Year	Exports Percentage to—						Imports Percentage from—					
	U.S.	U.K.	Ger.	Fr.	Belg.	Neth. India	U.S.	U.K.	Ger.	Fr.	Belg.	Neth. India
1931	2.7	24.6	19.5	9.0	13.5	6.9	7.8	8.4	32.7	4.0	10.4	3.8
1932	3.5	19.1	21.4	10.2	14.1	5.6	6.6	9.1	30.8	4.2	10.4	4.6
1933	4.6	17.5	21.6	9.9	13.9	4.3	6.4	9.0	31.3	4.4	10.2	4.2
1934	3.2	19.1	24.9	8.1	11.5	4.3	6.7	9.4	28.7	4.3	10.4	5.6
1935	4.9	21.1	19.2	7.0	10.7	4.7	6.9	9.3	25.6	4.7	11.0	6.1
1936	6.0	22.3	15.7	7.4	11.5	5.9	7.1	9.2	23.3	4.1	11.7	7.8
1937	5.1	21.7	15.4	6.6	11.0	8.2	8.8	8.3	21.1	3.9	11.6	8.1
1938	3.5	22.5	16.4	5.7	10.1	9.6	10.8	8.1	23.8	4.5	11.5	7.1
1939	4.3	23.4	14.6	5.2	9.3	10.4	9.5	7.7	24.9	4.8	14.4	6.0

United States–Netherlands Trade Viewed Quantitatively. Tables 15 and 16 list in terms of physical units some of the principal United States exports to the Netherlands and the principal imports from that country.

TABLE 15

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO THE NETHERLANDS, 1937–38

COMMODITY	UNIT	QUANTITY	
		1937	1938
Horse meat	1,000 lbs.	923	1,881
Goat and kid leather	1,000 sq. ft.	1,340	1,689
Barley	1,000 bu.	1,117	1,902
Corn	"	2,948	15,449
Wheat	"	7,187	15,500
Wheat flour	1,000 bbls.	466	476
Oil cake and oil meal	1,000 tons	76	74
Apples	1,000 bu.	469	1,134
Oranges	1,000 boxes	5	388
Pears	1,000 lbs.	5,986	14,552
Dried fruit	"	36,766	50,722
Refined sugar	"	8,200	7,286
Automobile tires	Number	61,397	55,233
Rosin	1,000 bbls.	57	45
Tobacco	1,000 lbs.	17,265	17,546
Cotton	1,000 bales	118	82
Timber	Million board ft.	11	12
Boards, planks	"	23	22
Crude petroleum	1,000 bbls.	309	326
Natural gasoline	"	14	295
Gasoline, other motor fuel	"	1,981	2,019
Naptha solvents	"	219	103
Illuminating oil	"	1,094	696
Gas oil and fuel oil	"	2,720	3,065
Lubricating oil	"	483	192
Crude sulphur	Tons	20,714	21,663
Iron and steel scrap	Tons	143,190	204,435
Iron and steel plates	1,000 lbs.	51,510	140,343
Tin plate	"	35,529	27,088
Copper	"	18,589	17,123
Brass and bronze, scrap, old	"	2,431	6,980
Typewriters	Number	8,492	8,271
Trucks and busses	"	1,254	1,069
Passenger automobiles	"	2,169	1,631
Nitrogenous fertilizer	Tons	19,830	16,431
Phosphate rock	1,000 tons	101	118

The Netherlands and the War Years. Germany invaded Holland on May 10, 1940. In December of that year all import duties between Holland and Germany in both directions were canceled. German troops in Holland surrendered on May 4, 1945. The Dutch merchant marine, which in 1939 had a tonnage of 2,969,578 tons was able to escape German domination,

however, and some 2,500,000 tons kept their identity while serving the United Nations. Netherlands India which included Java, Sumatra, Celebes, Borneo, and part of New Guinea were occupied by the Japanese forces in 1942. Japan made a concerted but unsuccessful effort to incorporate this area in the Japanese war effort. Holland showed her attitude toward

TABLE 16

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM THE NETHERLANDS, 1937–38

Commodity	Unit	Quantity	
		1937	1938
Cheese	1,000 lbs.	5,663	4,266
Herring, pickled or salted	"	9,541	6,579
Edible gelatin	"	998	1,123
Calf and kip upper leather	1,000 sq. ft.	4,211	3,932
Rice, including flour	1,000 lbs.	90,715	22,637
Edible vegetable oils	"	77,393	22,755
Corn oil	"	10,144	8,262
Peanut oil	"	31,471	6,576
Sesame oil	"	31,293	5,858
Prepared cocoa	"	2,834	2,809
Caraway seed	"	5,487	5,498
Poppy seed	"	4,956	6,719
Seeds other than oil seeds	"	6,880	4,512
Bulbs	Thousands	146,804	149,755
Hyacinth bulbs	"	18,444	16,942
Tulip bulbs	"	98,595	97,144
Leaf tobacco	1,000 lbs.	1,472	1,529
Binding twine	"	13,417	15,887
Diamonds, cut, unset	1,000 carats	117	50
Pig iron	Tons	28,772	14,236
Tin	1,000 lbs.	5,481	4,963
Ferromanganese	"	632	13,088
Creosote oil	1,000 gal.	12,329	6,262
Quinine sulphate	1,000 oz.	1,041	753
Other quinine salts	1,000 oz.	2,588	1,548
Ammonium sulphate	Tons	37,999	63,262
Other nitrogenous fertilizers	"	30,576	17,288
Potash fertilizers	"	102,010	52,661

free trade even while the war was in progress by entering a customs union with Belgium-Luxembourg covering everything except liquor, sugar and tobacco. During 1946, however, she imposed a special license fee on most imports amounting to as much as 5 per cent ad valorem.

ITALY

The Effects of World War I. The old tariff law of 1887 was still in force when World War I broke out and remained on the statute books until 1921. The long life of this act is to be explained by the fact that

Italy had remained primarily an agricultural country and had made little use of protectionist rates on other than agricultural products. The duty on wheat was 42 per cent; that on maize, 10 to 65 per cent, depending on quality; and that on wheat flour, 41 per cent. Moderate rates were in force on livestock, meat and dairy products, fruits and vegetables, and alcoholic beverages. Tobacco was the subject of government monopoly; and therefore the importation, as well as the domestic supply, was strictly regulated. Then, too, Italy had trade agreements with fifty-two countries, and most of these included the most-favored-nation clause. A network of treaties always tends to solidify a tariff system.

Sufficient sentiment for tariff revision had, however, manifested itself in 1913 to bring about the appointment of a commission to study the whole problem of Italy's tariff needs. This commission remained at work even after Italy's tardy entrance into the war; and its report in 1918–20, which covered thirty large volumes, was decidedly protectionist. It advocated the use of an autonomous tariff with maximum and minimum schedules as opposed to the general tariff then in use, which employed but one set of rates against all countries subject to modification by treaties or conventions.[9] Another war influence was the strict control exerted over international trade. Beginning in August of 1914, a long list of export prohibitions went into force covering wheat, sugar, coffee, cattle, coal, petroleum, textiles, and other articles. Ultimately almost every item was covered. In 1916 import control was imposed as well. This was made necessary in part by the exchange situation which grew increasingly worse and finally called forth an Institute of Foreign Exchange, to which was given a monopoly of foreign exchange dealings. After 1918 licenses were required for imports.[10]

The Law of 1921. A new tariff came into effect in 1921, but it was not autonomous in structure. In the form of a royal decree law, it did not enjoy the status of statutory law until brought before Parliament. This was not done until 1923. The tariff, which contained 953 schedules,[11] as compared with 472 in the preceding act, employed the system of coefficients varying from less than 1 to 2—a system similar to that developed in France. Duties, most of which were specific, were subject to a surtax when not paid in gold. Raw materials were admitted free, and agricultural produce was not protected. Heavy rates were imposed, nevertheless, on agricultural equipment and on pig iron and steel in order to build up home industry.

---

[9] Delle Donne, O., *European Tariff Policies* (New York: Adelphi Co., 1928), p. 225.

[10] *Italian Commercial Policy and Foreign Trade, 1922–1940*, Report No. 142, Tariff Commission (Washington, D.C.: U.S. Government Printing Office, 1941), p. 7.

[11] Bastable, C. F., *The Commerce of Nations* (London: Methuen & Co., Ltd., 1923), p. 106.

In 1922 and 1923 certain modifications were made. Rates were raised between 10 and 50 per cent. Between 1921 and 1926 treaties were signed with Czechoslovakia, Poland, France, Spain, Switzerland, Austria, Russia, Finland, Germany, Hungary, Latvia, Bulgaria, and Greece. These treaties reduced the tariff level on about one-third of the items in the act of 1921. By the end of 1926, about one-fourth of all Italian imports entered at reduced rates. Forty per cent of the total imports, mainly raw materials, entered free.[12]

Fascism and Commercial Policy. The industrialization program of Mussolini and the Fascists called for the development of such industries as the chemical, heavy metals, engineering, automobile, paper, glass, rubber, silk, and artificial silk. After 1929 a more vigorous protectionist movement asserted itself. Agriculture for self-sufficiency became an important part of Fascist policy and assumed such dramatic forms as the "Battle of Grain" (*battaglia del grano*). Reliance was placed on improved methods of production, penalties on poor cultivation, premiums for production, bounties on exports, and protective tariffs. The rate on wheat was increased about 50 per cent, and that on unprepared meats about 40 per cent. Increases were also effected on butter, oils, and fats.

The years 1930 and 1931 again witnessed marked increases. In the latter year, because of currency depreciation in a number of countries, a general addition of 15 per cent ad valorem was ordered on all items not specifically controlled by treaties or decrees. Certain commodities, such as wheat, corn, foodstuffs, wool waste, oil seeds, and so on, were not affected. The Italian tariff thus won the doubtful distinction of being the highest employed by any industrial nation in Europe. In spite of this, rates were raised during the following year. In addition, the quota system played its part. Professor Heuser points out that Italy was the first important country to use the quantitative import regulation as a method of reprisal. She employed it against wines, liquors, perfumes, soaps, automobiles, clothing, certain luxury products, cotton yarns, lace, tool machinery, hides, and many other products of France after 1932.[13] This reflected itself in 1934, when the export values dropped almost 13 per cent and brought on credit difficulties. In that year little change was made in the tariff rates, although a tax of 3 per cent was imposed as a license fee on the value of all imported goods.

During this time Italy also continued to strengthen her commercial position through favorable treaties. By July, 1935, fifteen countries had signed agreements in order to escape the severe restrictions which would otherwise have faced them—Albania, Austria, Bulgaria, Denmark, Yugoslavia, Holland, Rumania, Belgium, Germany, Great Britain, Greece, Ice-

[12] *Italian Commercial Policy and Foreign Trade, 1922–1940*, p. 10.
[13] Heuser, *op. cit.*, p. 43.

land, Norway, Sweden, and France. These treaties were bilateral in nature.

Economic Sanctions. Much of Fascism can be understood only in terms of mercantilism. It started out as an attempt to make Italy a great nation. In the words of Ogg and Sharp, "Here was a nation embittered and resentful because the outcome of the war [World War I] seemed to have yielded it so little tangible benefit." [14] Although on the side of the victorious Allies, Italy got nothing of the spoils of war. Instead she had lost her economic stability and had broken down industrially with almost 4,000 strikes and 50,000,000 working days lost in 1919 and 1920. Fear for her political stability as well made Italy fertile soil for extreme nationalism of the brand which Mussolini was offering. In true mercantilistic fashion, Mussolini, whose "March on Rome," in October, 1922, ushered in Fascism, was concerned with food and ships, with gold and goods, with population, and with colonies. He made use of the various stimulants and controls and directive forces which go with nation building. In the process he succeeded in avoiding any serious conflict with the outside world. But when he decided to make Italy an empire at the expense of Ethiopia, he upset Italy's political and economic relationships with the rest of the world. Trouble first became apparent on December 9, 1934 when Ethiopian and Italian troops clashed on the disputed frontier of Italian Somaliland. On May 13, 1935, Ethiopia protested the Italian invasion to the League of Nations which answered on November 18 by announcing economic and financial sanctions against Italy—sanctions supported by fifty-two member-nations and by Egypt, a nonmember. But there were also twenty-seven nations that carried on business with Italy as usual. Among these were the United States, Germany, Switzerland, Argentina, Brazil, Japan, China, Austria, Albania, Estonia, Hungary, Iceland, Bolivia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, Afghanistan, Arabia, Manchukuo, Yemen, and Morocco. The sanctions meant an embargo on the export to Italy of arms and munitions, iron ore, scrap iron, aluminum, tin, nickel, rubber, and certain other items, although, strangely enough, copper and petroleum were not mentioned. In addition, all imports from Italy were to cease, as well as commercial credits.[15]

Economic and financial sanctions had been provided in the Covenant of the League of Nations. That Covenant contained a pledge in Article X on the part of the members to "undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all members of the League." Article XII contained the promise to submit such disputes as might arise to arbitration or judicial settlement or

---

[14] Ogg, Frederic Austin, and Sharp, Walter Rice, *Economic Development of Modern Europe* (New York: Macmillan Co., 1926), p. 802.

[15] *Italian Commercial Policy and Foreign Trade, 1922–1940,* p. 31.

at least to inquiry by the Council of the League and "in no case to resort to war until three months after the award" or report.

Article XVI pledged the use of economic sanctions:

> Should any member of the League resort to war in disregard of its covenants . . . it shall *ipso facto* be deemed to have committed an act of war against all other members of the League, which hereby undertakes immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking state, and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking state and the nationals of any other state, whether a member of the League or not.

Article XVI also provided for a consideration of what military steps to take and how to share the losses and inconveniences which might affect the members.

Such was the state of world morality, however, that Italy survived the sanctions and annexed Ethiopia as part of a new Italian Empire on May 5, 1936. League sanctions were lifted on July 15, 1936, because they were serving no purpose. On December 11, 1937, Italy gave a two-year withdrawal notice from the League in retaliation for the sanctions and the subsequent refusal of the League to recognize officially her sovereignty over Ethiopia. The Ethiopian campaign proved costly, and Italy had to resort to a capital levy of 10 per cent upon the capital, surplus, and reserves of Italian stock companies with the exception of banks and credit institutions. The failure of the sanctions has been explained in the following manner:

> When sanctions went into effect none of the possibilities anticipated by the sanctionist countries became effective rapidly enough to have the desired result. When sanctions began, the Italian Government already had at its disposal a fully developed machinery for the control of the country's foreign trade and exchange relations. This machinery was effectively used not only to curtail the country's imports still further and to protect Italy's threatened commercial balance, but as a means of retaliation against the prohibition placed on Italian exports by the sanctionist countries.[16]

Viewed quantitatively, Italy's trade was reduced about one-third during the period of the sanctions. Italian exports declined 44 per cent, and imports fell 25 per cent. The decline of invisible items was marked. Gold losses through the export of that metal amounted to 1.45 billion lire. In terms of trade retaliations with sanctionist and nonsanctionist countries, exports to the former declined 87.8 per cent and imports fell 51.3 per cent. Trade with the latter rose. Exports increased 5 per cent, and imports 4 per cent. Nonsanctionist countries purchased 88.7 per cent of Italian ex-

[16] *Ibid.*

ports. Two countries, Germany and the United States, accounted for 37 and 17 per cent respectively. Nonsanctionist countries sold to Italy 66.4 per cent of her total imports (with the United States supplying 13 per cent and Germany 29 per cent). It may be concluded that, but for the nonsanctionist countries, the sanctions would have paralyzed Italian trade.[17] This should be kept in mind when the question of international co-operation is again put to the test.

Trade relations were resumed with sanctionist countries by a series of agreements in 1936 and 1937. Italy was able to assume a very strong bargaining position. Tariff reductions were made on wheat and flour, cattle and meat, eggs, coal, coke, bacon and lard, and raw cotton. At the end of 1936 a commission was appointed to revise and modernize the Italian tariff.

Colonial Trade and Dependence on Germany. Italy, never as aggressively totalitarian as Germany, had not succeeded in winning economic dominance in any neighboring country except Albania and therefore looked to Ethiopia, Somaliland, Eritrea, and the Italian Aegean Islands for markets and supplies. But in this Italy was disappointed. Not only did the colonies prove to be poor sources of raw materials, but they actually became a burden and imported food from the mother-country.

As a result, Italy became more and more dependent on Germany. This dependence increased after the war began. The loss of portions of the overseas market, the cessation of immigrant remittances, and the disappearance of the tourist trade were in part responsible. Italy became dependent on Germany for coal (1,000,000 tons monthly), metals, machine tools, lumber, petroleum (from Rumania), and other numerous commodities connected with war and armaments. Germany had likewise become the chief market for Italian agricultural exports, importing 40 per cent of Italy's exports of citrus fruits, 60 per cent of other fresh fruits, 45 per cent of dried fruits, and 80 per cent of fresh vegetables.[18]

After 1939 Italy subordinated, to a greater extent than before, economic considerations to military necessity. Mussolini set up a new bureau, the Directorate General for Export Services, for the purpose of developing, regulating, and controlling exports. It was also given supervision over export quotas and related matters in commercial treaties. Resort was also had to specially chartered companies with monopolistic powers to coordinate export and import trade in leather and hides from whatever source and lumber from North America. These companies were composed, in turn, by individual companies engaged in these trades. The purpose of this legislation and a great deal more like it was to conserve exchange and to obtain necessary raw materials.

---

[17] *Ibid.*, p. 32.

[18] Domeratzky, Louis, "Italian Economic Dependence on Germany," *Foreign Commerce Weekly*, December 14, 1940, pp. 487, 535.

Some idea of the effect on Italy and her foreign trade of wartime legislation may be had from a report by the United States Consul at Milan. Writing at the close of 1939 he states:

> Limitations of consumption in order to conserve resources and to husband supplies of foreign exchange have had a considerable effect on the import trade. An increase of nearly 50 per cent in gasoline prices and the restriction of the use of private automobiles to actual business requirements and, even in this case, to a consumption of not over 10 liters (about 2½ gallons) per day has resulted in a reduction of the number of automobiles to only 6 per cent of total registrations. Consumption of fuel oils for heating has been restricted in order to reduce imports. The sale of coffee in any form was forbidden from September 1 on to prevent the use of exchange to pay for imports and to increase the export supplies of Ethiopian coffee. Consumption of sugar and cocoa has also been reduced, and the introduction of two meatless days a week has served to curtail the use of meat. In order to reduce coal imports by cutting down heating and artificial lighting, Government offices now operate from 8 A.M. to 2 P.M., without intermission, instead of from 8:30 A.M. to 6 P.M. with a 2-hour lunch period. Limitations on the use of illuminating gas were also imposed in some parts of Italy. The Government office hours were expected to be adopted by business firms as well, and school hours were to be shortened along similar lines. Restrictions on the use of iron and steel have been tightened recently and all holders of stocks of iron bars, rods, sheets, etc. totaling more than 500 tons, have been ordered to report them to the military control authorities.
>
> All of the measures introduced are in line with a list of rules published in the September 29 issue of the Milan newspaper Corriere della Sera, as follows:
>
> 1. Reduce consumption (coal, mineral oils, etc.)
> 2. Ration consumption (foodstuffs, gasoline)
> 3. Reduce waste
> 4. Increase recovery of waste materials (scrap metals, regenerated oils, etc.)
> 5. Increase use of substitutes (staples fibers for cotton and wool; roasted barley for coffee; aluminum and zinc for copper; electricity for coal; aluminum alloys for iron and steel, etc.)
> 6. Build up stocks wherever possible[19]

Italian–United States Relations. On December 16, 1937, a temporary commercial treaty including most-favored-nation treatment became effective. It took the place of the old Treaty of Commerce and Navigation of 1871 which expired on December 15, 1937. In it recognition was given to the setting up of quotas and exchange controls, provided that the most-favored-nation principle was followed, and to monopolies which either country might set up. Preferential arrangements which Italy granted to Albania, Bulgaria, Hungary, and Yugoslavia were to apply to the United States. The United States, in turn, was to apply the minimum rates as established by trade agreements with other countries (except Cuba).

[19] *Commerce Reports*, December 9, 1939, p. 1144.

In 1938, Italy made all imports from the United States (as well as from Argentina, Brazil, Denmark, Finland, Norway, and Poland) subject to ministerial license. Previously they had been subject only to quota limitations based on imports during 1934.

Other Agreements. Italy entered a customs union, effective March 6, 1940, with Albania under which the Albanian tariff was abolished and the Italian tariff became applicable to the two areas. A revised Italian-Rumanian treaty became effective in 1939 providing for Italian purchase of Rumanian wheat and oil, cattle, maize, oilseeds, wood, hogs, poultry, rye, barley, oats, dried vegetables, lard and bacon, etc., and the amount of each as well. Rumania undertook to purchase at fixed quotas preserved fish, wool yarns, rice, tanning extracts, rayon, cotton fabrics, citrons, oranges, hemp and flax, tires and tubes, machinery, radio apparatus, automobiles, chemical and medicinal products, colors, varnishes, as well as numerous other items. A reciprocal agreement with Russia was concluded on February 7, 1939, under which Italy undertook to purchase mineral oils, manganese, lumber, coal, wheat, and barley and Russia, in turn, promised to take textiles, machinery, and other finished products. An agreement with Turkey also fixed quotas and set up a government commission in each country to supervise the quotas and also a payment agreement which went into effect at the same time. In 1940 a new agreement with Brazil became effective. In return for Italian purchases of Brazilian goods, Brazil became obligated to import 200,000,000 lire of Italian products annually. Other provisions reiterate the most-favored-nation clause and other stipulations of the agreement of 1936.

Italian Trade Relations. Italian Trade relations were not left free to the influence of world market conditions between the advent of Mussolini and the end of World War II. With trade agreements and clearing arrangements and with trade in the hands of the government and directed along political rather than economic lines, the percentage of the Italian market open to any country practically was left to the judgment of Italian officials.

From Table 17 the fact becomes evident that during the thirties Germany grew in importance as a buyer of Italian products while other countries showed a gradual decline. The growth of Italian Africa as a customer for the products of the mother-country is likewise notable. Germany, likewise, moved ahead of all other countries as a source of Italian imports.

United States–Italian Trade Viewed Quantitatively. Raw cotton, crude petroleum, iron and steel scrap, and refined copper constituted the bulk of United States exports to Italy in terms of value. They constituted 69 per cent in 1937, 67.7 per cent in 1938, and 65.1 per cent in 1939. A little more than one-third of the total value of our imports from Italy

TABLE 17

ITALIAN TRADE RELATIONS, 1931–39

YEAR	EXPORTS PERCENTAGE TO—							IMPORTS PERCENTAGE FROM—						
	U.S	Arg.	Fr.	Ger.	Switz.	U.K.	Ital. Africa	U.S.	Arg.	Fr.	Ger.	Switz.	U.K.	Ital. Africa
1931	10.2	8.1	10.9	10.7	7.5	11.8	2.4	11.4	4.8	7.1	13.2	3.4	9.4	0.7
1932	9.4	5.6	7.6	11.4	8.5	10.8	3.4	13.4	5.8	5.8	13.4	3.6	9.0	0.6
1933	8.8	6.4	7.7	12.2	8.0	11.5	3.8	15.0	3.4	5.6	14.9	3.7	9.8	0.9
1934	7.5	4.2	6.8	16.0	8.4	10.1	4.8	12.5	3.6	5.7	15.8	3.8	9.2	1.1
1935	8.1	3.1	3.9	16.3	6.5	8.3	14.1	11.3	3.8	6.0	18.3	3.2	7.3	1.4
1936	9.9	2.9	3.5	19.6	6.2	2.8	35.3	14.8	3.0	2.1	26.8	3.9	0.9	2.4
1937	7.5	3.9	4.2	14.4	4.9	6.1	24.7	11.0	2.5	3.5	18.6	3.0	3.9	2.5
1938	7.5	3.9	3.1	19.1	4.7	5.0	23.3	11.9	2.4	2.3	26.7	3.3	6.5	1.9
1939*	6.8	1.2	3.0	19.6	4.9	6.1	19.9	10.1	1.2	1.9	25.7	3.8	5.8	2.6

* Seven months.

during the same years represented purchases of cheese, edible olive oil, canned tomatoes, and raw silk. Tables 18 and 19 show the principal imports and exports for commodities lending themselves to quantity description. All represent a value of $250,000 or more.

TABLE 18

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO ITALY, 1938–39*

Commodity	Unit	1938	1939
Cigarettes	Thousands	57,698	99,896
Raw cotton	1,000 bales	377	368
Spruce	1,000 ft.	435	1,885
Crude petroleum	1,000 bbls.	6,751	4,985
Gasoline	"	419	219
Gas oil and distillate fuel oil	"	....	151
Residual fuel oil	"	1,201	1,402
Red and pale lubricating oil	"	128	232
Cylinder oil	"	115	228
Paraffin wax	1,000 lbs.	22,104	28,838
Iron and steel scrap	1,000 long tons	435	426
Refined copper	1,000 lbs.	43,747	56,029
Accounting and calculating machines	Number	2,904	1,466
Carbon black	1,000 lbs.	9,765	8,260
Phosphate rock	Long tons	52,911	88,375

* *Italian Commercial Policy and Foreign Trade*, pp. 128–29.

The Last Years of Fascism. In 1942 and 1943 the food situation in Italy became so bad that the bread rations fell one-third below the lowest ration known in World War I. German promises of cereals and coal did not materialize, although Germany continued to obtain the fruits, vegetables, and oils promised in return. The lack of raw materials brought on unemployment, which is hardly to be expected during a war. This further lowered Italian morale. On September 3, 1943, the Allied invasion of Italy began. Italy signed an armistice with the United Nations. The year

1944 has been called "the most disastrous year in the entire history of the kingdom of Italy." The military campaign moved slowly. Gradually the Nazis were forced back. On April 26, 1945, Mussolini was captured while seeking to escape to Germany disguised as a drunken German soldier. He was shot the next day. Italy's King Victor Emanuel III abdicated on May 9 in favor of his son, Humbert II. But the elections of June 2–3 declared for a republic. The first president was named on June 28, 1946.

TABLE 19

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM ITALY, 1938–39*

Commodity	Unit	1938	1939
Cheese	1,000 lbs.	24,792	23,637
Anchovies	"	1,849	1,697
Canned tomatoes	"	52,518	55,391
Tomato paste	"	9,312	7,146
Chestnuts	"	15,397	12,011
Shelled almonds	"	961	1,001
Filberts	"	720	2,098
Olive oil	"	40,484	32,351
Vermuth and other still wine	1,000 gal.	1,107	1,254
Bergamot oil	1,000 lb.	79	198
Lemon oil	"	95	140
Tobacco	"	522	645
Cotton cloth, not pile	1,000 sq. yd.	1,182	1,234
Quilts and bedspreads	Thousands	1,629	1,898
Jute burlaps	1,000 lbs.	10,509	7,988
Woolen fabrics	1,000 sq. yd.	565	329
Hat bodies of wool fell	Thousands	11,396	5,264
Raw silk	1,000 lbs.	2,276	1,141
Silk fabrics, not pile	"	80	55
Rayon filaments	"	9,908	9,481
Straw hats	Thousands	2,108	2,407
Ramie hats	"	836	1,070
Briar, laurel, or ivy root	"	21,381	22,134
Argols, tartars, and wine lees	1,000 lbs.	4,987	4,441
Accordians and concertinas	Number	19,874	31,053

* *Italian Commercial Policy and Foreign Trade*, pp. 126–27.

The postwar imports of Italy were in the hands of the United States Army and consisted mainly of foodstuffs. Some restoration of industry and agriculture has taken place resulting in the opening of an export market for citrus fruits, silk, perfume oils, hemp, tartaric acid, mercury, sulphur, pumice, lead, and briarwood. These exports have gone to the United States, the United Kingdom, France, North Africa, and Malta.

Italian trade and commercial policies will have to be re-examined in the years to come. Italy may follow a protectionist line, which has already shown itself in the doubling of the tariff on tobacco in 1945. One of the determining factors in Italy's economic future, assuming that she will

remain a republic and become a stable member of the family of nations, will be the disposition of her surrendered colonies which consist of Eritrea, Somaliland, Tripoli, Cyrenaica, as well as some islands, which Mussolini had attempted to build into an Italian empire.

RUSSIA (U.S.S.R.)

The Control of Foreign Trade. In accordance with a basic law passed on April 22, 1918, the foreign trade of Russia, both import and export, became a state monopoly under control of the People's Commissariat for Foreign Trade. Accordingly, the trade of Russia cannot be viewed in the same light as that of nontotalitarian countries which normally leave the decisions of exporting and importing to private individuals and privately owned corporations. In the same way, tariff and trade restrictions do not have the same meaning for Russia. No law or other device or subterfuge such as sanitary restrictions are needed to control foreign trade. A decision by some government official to buy or not to buy, to sell or not to sell, a given commodity is all that is needed. No discriminatory or retaliatory legislation is necessary against a particular country when an official has the right to deal or to refuse to deal with it. Soviet officials also have the power to fix the prices of goods for export. This they can do without reference to cost of production or competitive conditions and thereby make them attractive to buyers in other countries. Similarly, prices of imports can be controlled both by the monopolistic position of the Soviet officials as buyers of all Russian imports and by the government's policy of fixing sale prices in terms of internal requirements rather than profit. Russia is likewise able to free herself from problems of exchange control because centralized buying and selling can be co-ordinated in such a way that the value of imports can also be equated to those of exports. Trade agreements, too, can be entered into with more expedition by Soviet officials who have the right not only to negotiate but to conclude agreements. The tremendous price paid for this system is the loss, not only of individualism, but of freedom of the market, competitive price determination, variety of consumer choice, a high standard of living, and the development of cosmopolitan taste.

The Soviet's use of the tariff and other trade restrictions has been pictured as being limited possibly to controlling the content of luggage of individuals and gifts and to directing state officials or accredited corporations and agencies in their purchases by making more or less attractive the importation of certain goods.[20] Custom receipts are not listed in published reports; and foreign trade statistics, when published, are neither

[20] Killough, Hugh B., *International Trade* (New York: McGraw-Hill Book Co., 1938), pp. 535–36.

revealing nor current. This is typical of controlled economies. No figures which might reflect undue strength or weakness can be made available to the outside world.

Russia after 1940. This absence of published trade statistics and the censorship of recent years makes anything beyond a general statement about Russia difficult. Numerous controlled press releases, together with such information as our own government agencies have been able to suggest, may be taken as a basis for assuming that much of Russia's economic energies have been taken up with industrialization, improvements in labor efficiency, and increase in agricultural output. Loans and subsidies to peasants for the purchase of cattle and farm buildings and for electric plant erection have been paid in recent years. An emphasis has been placed on technical and scientific education for industrial purposes.

Russia has entered a number of trade agreements in the last eight years. In 1939 a treaty with China provided for the most-favored-nation treatment and established the legal status of the trade delegation of the U.S.S.R. in China as part of the Embassy with all rights and immunities. In the same year, agreements with Latvia and Poland were concluded. Latvia was promised a better market in Russia for live hogs, paper, cardboard, calfskins, chrome, leather, and railway cars. In turn, Russia was to expand her exports to Latvia of phosphorites, kerosene, gasoline, lubricating oils, petroleum residues, agricultural machinery, tobacco, asbestos, salt, iron and steel, bituminous fuels, and other items needed by Latvian industry.

The Russo-Finnish War which ended in 1940 was something of a repetition of the Italian annexation of Ethiopia. Finland, as the victim of aggression, issued a call for help to the League of Nations, but the latter meant nothing to Russia. It has been suggested that part of Russia's answer to the "capitalist democracies" was the Soviet–German Trade Agreement of February 11, 1940, the announcement of which surprised the world. The content of this pact was not disclosed, even though Great Britain asked for it bluntly and made negotiations of a treaty contingent upon knowing. The assumption is that it provided for the exchange of Russian raw materials and German manufactured goods. In the same year, new trade agreements were entered with Iran, Afghanistan, Denmark, Sweden, Hungary, Finland, Bulgaria, and Yugoslavia. A two-year treaty of commerce and navigation was signed with Rumania, and a trade agreement was made with the Chinese government in Chungking. A pact of friendship and neutrality with Japan was also announced in 1941. Subsequent events showed that Russian trade agreements were never far removed from diplomatic and political eventualities.

At 4:00 A.M. on June 22, the world was surprised when Hitler began his attack on Russia which had renewed the trade treaty but a few months

before. One of the developments was the signing of an Anglo-Soviet trade agreement; another was the opening up of Lend-Lease arrangements arrangements between the U.S.S.R. and the United States. It is not in the province of this book to recite the remarkable military campaigns which ensued. But, from a trade point of view, it is significant that Russia annexed between 1939 and 1945 a total of 114,877 square miles and a population of 26,625,000. The regions affected were Estonia, Latvia, and Lithuania; portions of Finland, Poland, Rumania, eastern Prussia; Carpatho-Ukraine, Karafuto, and the Kuril Islands. While the ultimate fate of these areas is to be decided, it should be pointed out that numerous tariff regions have been destroyed. In 1944 the Soviet Union took part in the Bretton Woods Conference. Her influence at international conferences has been out of all proportion to her importance in the trade of the world. It is estimated that her exports amounted to but 1.3 per cent of the world's exports in 1936 and 1937 and to 1.1 per cent in 1938. Her imports, likewise, were very small—1.2 per cent in 1936, 0.9 per cent in 1937, and 1.2 per cent in 1938.

Trade Agreement with the United States. Russia does not have a reciprocal trade agreement with the United States. On July 13, 1935, however, an agreement concerning commerce went into effect and was renewed with modifications in subsequent years. Under its original provisions the U.S.S.R. undertook to purchase our goods to the value of $30,000,000 annually, while we agreed to extend the benefits provided in the reciprocal trade agreements made with other countries. During the first year of the agreement Russia purchased $37,000,000 worth of goods —an increase of 150 per cent over the previous years, 1932–34. The agreement when renewed promised purchases of not less than $40,000,000. Our sales since 1937 have exceeded this figure. They came to $42,892,000 in 1937 and to $69,691,000 in 1938.[21]

Russian Trade Relations. Table 20 is an estimate of the parts played by the importers of Russian goods and the exporters of goods to Russia. As buyers, Germany and the United Kingdom were significant. The United States, Germany, and the United Kingdom were the chief suppliers of what goods were purchased during the thirties.

The Industrialization of Russia. We have seen that the international trade of Russia is controlled and that at the present time it does not con-

---

[21] For itemized figures for 1945 see *Foreign Commerce Weekly*, June 29, 1946. For January to June, 1946, see the issue of December 21, 1946. Neither set gives a normal picture. Our export figure of $1,838,281,000 in 1945 is due to Lend-Lease; that of $223,439,000 for six months of 1946 is warped by $105,292,000 of Lend-Lease and $91,952,000 of UNRRA shipments. Imports for 1945 came to $53,793,000. The purchase of $41,341,000 of undressed furs in the first six months of 1946 caused the import figure to be $57,184,000. This was greater than that of the whole previous year.

stitute a very important part of world trade. From another point of view, of course, since Russia covers one-seventh of the earth and has absorbed a number of sovereign nations, a portion of her domestic trade is international. Concern has been expressed over the ultimate effects of the exports of an industrialized Russia on the world market, especially since that country has been a consistent importer of industrial "know-how," patents, scientists, engineers, and research personnel. It has been pointed out that, although Russia has refused to give out any of her own patents since 1927, she has been buying patent specifications in huge numbers from the United States and elsewhere. For example, on January 2, 1945, an order was placed with our patent office for all patents for the year 1942 and part of 1943. Another order was placed for 300,000 expired patents at prices ranging from 5 cents to 10 cents each. Still another order sought such German patents as we might have for the years 1941, 1942, 1943, and part of 1944.

TABLE 20

RUSSIAN TRADE RELATIONS, 1931–38

Year	Exports Percentage to—							Imports Percentage from—						
	U.S.	Cz	Fr.	Ger	U.K.	China	Iran	U.S.	Cz.	Fr.	Ger.	U.K.	China	Iran
1931	2.8	0.6	3.5	15.9	32.8	8.0	..	20.8	3.2	1.4	37.2	6.6	4.2	
1932	3.0	0.2	5.0	17.5	24.1	12.1	..	4.5	1.5	0.6	46.5	13.1	5.6	
1933	2.8	0.2	4.6	17.3	17.6	12.5	..	4.8	1.4	1.5	42.5	8.8	11.6	
1934	3.4	0.2	5.2	23.5	16.5	14.0	2.8	7.7	0.8	5.0	12.4	19.9	13.8	6.2
1935	7.2	0.4	4.9	18.0	23.4	5.7	4.3	12.2	2.4	7.3	9.0	18.0	7.2	8.6
1936	9.6	0.8	7.6	8.5	26.6	6.9	4.7	15.5	3.2	3.1	22.8	15.1	5.6	6.7
1937	7.8	1.0	5.0	6.2	32.8	6.2	5.3	18.2	1.0	2.1	14.9	14.3	5.8	6.7
1938	7.2	0.9	4.4	6.6	28.4	3.3	4.3	28.5	1.3	2.0	4.7	16.8	4.8	4.4

The nations of the world have long struggled with plans for keeping patents, processes, and ideas within their own boundaries. The reader will recall how early factories were prisonlike in order to keep ideas from getting out; how England forbade the emigration of people with technical "know-how" and sought to bring back those who had gone away and set up rival industries; how our own textile system was the result in part of the smuggling of ideas out of England; how the Prussian government virtually was the official agency for stealing British "know-how." The reader will likewise recall the extraordinary means employed to keep the secret of the atomic bomb and how, almost weekly, a jittery public heard rumors that agents of different governments had got hold of portions of the secret or that scientists elsewhere had stumbled on it themselves.

Ideas and processes cannot be embargoed, and men and women with ideas cannot be permanently imprisoned within the confines of their country. Enterprisers have ways of straddling sovereign lines through cartels, licensing schemes, subsidiaries, and branch factories; through the publication of scientific papers; through travel, international exhibits, and

in many other ways. Embargoes have never really worked altogether successfully even with something tangible like gold or silver. They cannot work with ideas. But, if restrictions will not keep ideas within sovereign lines, the next best thing is to work out a plan for reciprocity through which ideas will flow back and forth. Long ago Professor Taussig suggested to the inventor in this country that the way to remain in the van is to keep on inventing ahead of the next fellow instead of trying to hold on to what has already been accomplished.

SUMMARY

The Swiss tariff, already high in 1888, was raised in 1891 and 1906. The latter remained basic until 1921. In that year, rates were again raised and remained essentially the same until 1931 when once again they were pushed higher. In common with other countries, Switzerland resorted to other restrictions in the period of the thirties. World War II found Switzerland neutral but completely encircled by Nazi-dominated areas.

The Spanish tariff was notoriously high in 1914. During the first World War, Spain's neutral position brought about new industries which claimed tariff protection in the act of 1922. Again in 1924 and 1926 higher rates were assessed. Other restrictions were imposed in the interests of trade. Civil war from 1936 to 1939 brought ruin to Spanish economy and prevented Spain from capitalizing on her neutrality as she had done in World War I. The postwar goal has been set at industrialization and a high degree of self-sufficiency.

The Netherlands carried the free trade policy through World War I. In the twenties, modest increases were made in the rates. In the thirties, sharp increases were made together with other trade restrictions. During World War II the Netherlands, mother-country as well as the rich colonies, were overrun by the enemies. But at the end of 1945 the government was already entering into trade agreements with a view of postwar recovery.

The Italian tariff remained unchanged from 1887 to 1921 because Italy remained primarily an agricultural country with little use for protection. The law in 1921 raised rates considerably on industrial products. Higher rates followed in 1922 and 1923, but a number of trade treaties reduced the effective rates on one-third of the dutiable items. After 1929 Mussolini began a vigorous protectionist movement which led to reprisals and then to concessions by other countries. Italy weathered the economic sanctions of November, 1936, to July 15, 1937, which had resulted from her invasion of Ethiopia. After 1939 Italy became more and more dependent on Germany, although she continued to enter trade agreements during 1940. The death of Mussolini in April, 1945, brought an end to his Fascist government.

Russian trade has been state controlled since 1918. Hence, the tariff has not been of significance. Receipts from customs have not been published as a separate item. In recent years Russia has entered some trade agreements. Her goal is the industrialization of large areas of the country —a goal which received enormous impetus during World War II.

QUESTIONS FOR DISCUSSION

1. Show, by reference to Switzerland, how a country's internal economy can be shaped and controlled by external considerations.
2. Why has Switzerland become famous for watches? Are any of the reasons applicable to our pre-eminence in this field?
3. Show, by reference to Spain, how a country's internal problems can shape its international standing.
4. What elements in Spain have tended to keep it from becoming an industrial nation?
5. What circumstances compelled the Netherlands to forsake free trade after World War I? Would the maintenance of free trade have been impossible?
6. What was the Fascist policy toward international trade?
7. Explain the use of economic sanctions, and give your opinion of this device.
8. Show how Russia has made international trade into a state monopoly.
9. Suggest the effects of an industrialized Russia on world trade.
10. Develop further the concept of "ideas in international trade" and the futility of placing embargoes on them.

CHAPTER XX

POLICIES OF THE ASIATIC COUNTRIES AND AUSTRALIA

JAPAN

Early History. Prior to the opening of Japanese harbors to the trade of the world in the middle of the past century, there was virtually no foreign trade and little trade between the different sections of that country. For some two hundred and fifty years, international trade was actually prohibited by the central government, which inflicted the death penalty on anyone having relations with foreigners. Within the country, each feudal chief believed in keeping within his own boundaries all that was produced, with the result that an overabundance in one region might be accompanied by starvation in a neighboring one.

In 1600 a historic event occurred. A Dutch ship, finding itself in distress, was towed into a Japanese port. Instead of being driven away, William Kent, an Englishman on the ship, was allowed to land. He won the regard of the ruler and spent the rest of his life as an adviser and diplomatic agent for matters pertaining to foreigners. In 1605 the Dutch were given trading privileges; and four years later the Dutch East India Company established a factory. During the many years that the Dutch had exclusive trading privileges with Japan, a certain amount of interest in Dutch culture asserted itself. For a long time the government tried to stamp out this foreign cultural influence but finally had to recognize it to the extent of permitting doctors to study Dutch books. As a result, it is said that everyone who wanted to learn Dutch professed to be a medical student. Some three thousand such students passed through the halls of the government medical school established at Osaka between 1838 and 1862.

The Dutch were jealous of their privileges and did nothing to make the Japanese look with more favor on other foreigners. Ships other than those of the Dutch received scant courtesy, even when forced to seek repairs. The attempts of the Russians to open up a fur trade failed. Even as late as 1824, the government decreed that foreign ships were to be driven away and death was to be the penalty for foreigners seeking to land. The partial opening of Chinese ports to other trade seemed, however, to carry some weight with Japanese rulers. Hence, the decree was

modified so as to permit ships to come into port for the purposes of refueling or obtaining provisions.

The Entrance of the United States. For some years the United States had been carrying on a thriving trade with China, which held a romantic interest for this country. In 1845 our Congress recommended that an attempt be made to open up trade with Japan as well. To this end, Commodore Biddle was sent with two ships to Japanese waters; but nine days of negotiations were met with flat refusal, and the Commodore himself was roughly handled. The next attempt was made by Commodore Perry who came with an escort of four ships and 560 men. This episode is described colorfully by Sir Charles Norton Edgcumbe Eliot who served as the principal of the University of Hong Kong and later British ambassador to Japan:

> He bore a letter from the President requesting the conclusion of a commercial treaty but abstained from any attempt to coerce or threaten. He presented his letter, distributed many presents consisting chiefly of mechanical toys and instruments, and after staying ten days sailed away to China, saying that he would return in the spring. The Japanese, who, since the days of the Mongol invasion, had not seen more than a couple of foreign ships together, were panic-stricken at the appearance of the American squadron. The emperor at Kyoto was solemnly informed of the awful event, and his majesty ordered that prayers for the destruction of the barbarians should be offered at the seven principal shrines. At first the Government of Yedo seems to have thought of resistance. The prohibition against building seagoing ships was removed and the feudal chiefs were ordered to build and arm large vessels; the Dutch at Deshima were asked to furnish a man-of-war and modern military appliances and the army was prepared for action. But the conviction soon prevailed that effective resistance was impossible, and on December 2 instructions were issued that if the Americans returned, they were to be given a pacific reception. Perry did return in February of the next year [1854] with a still more formidable force of ten ships and 2,000 men and after six weeks of negotiations obtained a treaty of peace and friendship which stipulated that the ports of Shimoda in Izu and Hakodate should be opened to American ships and that Americans be allowed to frequent them within definite limits: that American consuls or agents might reside in Shimoda: that shipwrecked sailors should be relieved and that ships might obtain fuel and provisions in Japanese territory. Perry remained in Japan till June and then went to Canton. His visit had been short and successful, but the last entry in the Journal of Wells Williams, his interpreter, is, "Thus ends my expedition to Japan, for which praise God."

These concessions to the United States were soon extended to Russia, Holland, and England. Later negotiations in 1857 and 1859 resulted in more privileges in which other countries shared. In the latter year, the important port of Yokohama was opened to the ships of the world. In

1865, the tariff of Japan was reduced from 15 per cent ad valorem to 5 per cent, and other exemptions were allowed in the face of a show of force by British, Dutch, and French vessels. More ports were opened, and the right of extraterritoriality (the exemption from the jurisdiction of the courts of Japan and the right to a court made up of consuls of other countries) was provided. Japan, accordingly, had little control over her international trade until after 1900, when she was given tariff autonomy or the right to make her own tariff rates, although the powers had accepted this principle by 1899, when fourteen more ports were opened to foreign ships and when the foreign-settlement system gave way to mixed residence.

The Growth of Foreign Trade. Up to 1880 the foreign trade of Japan was small and mostly in foreign hands. As late as 1900, about 60 per cent of the trade was so controlled, but decade by decade the influence of Japanese merchants grew apace. In this they were aided by the founding of the Tokyo Marine Insurance Company and the Yokohama Specie Bank. Trade continued to be small until after the Sino-Japanese War, 1894–95, when a new era set in and both exports and imports trebled over the preceding years.

Japanese Tariff Development. Although customhouses were first established in 1859, the Japanese government really had no tariff in the ordinary sense. The tariff was essentially a treaty with the different powers and was subject to revision by treaty. This situation persisted until 1911, when, as pointed out above, the foreign control of the system was removed. The law of March 30, 1906, consolidated into one schedule the previous rates and those imposed because of the Russo-Japanese War, 1904–5. A new law became effective in 1911 and remained basic except for amendments until 1926.

In 1916, rates were raised to protect the industries that had begun to develop because of the first World War. Again, in 1920, higher duties were imposed on dyes, chemicals, metal and woodworking machinery, while a surtax with a maximum rate of 100 per cent was imposed against dumping. During this period, Japanese exports rose from 600,000,000 yen in 1914 and 1,000,000,000 yen in 1916 to 2,098,000,000 yen in 1919. Imports increased from 600,000,000 yen in 1914 to 2,236,000,000 yen in 1920. In 1922, increases ranging from 50 to 100 per cent were made in the rates on copper, brass, and bronze in the form of ingots, bars, plates, and sheets, and on wire, pipes, tubes, and scrap. Wool, wheat, wheat flour, rice, paddy, and hides were subjected to higher duties during this period. In 1923 the government found it advisable to change a certain rate from the specific form to the ad valorem form because of price fluctuations. During the next year some 120 articles of a luxury nature were assessed 100 per cent. Some lightening of this burden, however, was authorized in

1925 in favor of goods needed for industrial use and articles intended for re-export.

The Tariff of March 29, 1926. In 1926, the Japanese tariff was revised, with increases on virtually all manufactured goods, ranging from pencil sharpeners to locomotives. The theory underlying the act was that raw materials were to be free from duty, protection was to be granted to industries with a promising future, reductions were to be made in duties imposed on the necessities of life and on domestic products which could hold their own in competition with imported goods, and higher rates were to be used to discourage the importation of luxuries.

The act was amended in 1927, 1929, and annually thereafter. In 1929 the import duties on tea and twenty other luxury articles were removed. In the following year, certain cotton yarns and iron pipes and tubes were placed on the free list and the rate on cement was reduced. In 1932, rates were raised on twenty-nine articles—agricultural products, foodstuffs, and some industrial and forestry products. Because of the decline in exchange rates, many specific duties were increased 135 per cent.

A somewhat clearer understanding may be had of the tariff by picturing its form at this time. Its rates were mostly specific, and such ad valorem duties as there were ranged up to 50 per cent. The tariff items were classified into seventeen groups:

1. Plants and animals (living)
2. Grains, flours, starches, and seeds
3. Beverages, comestibles, and tobacco
4. Skins, hairs, bones, horns, teeth, tusks, shells, and manufactures thereof
5. Oils, fats, waxes, and manufactured articles thereof
6. Drugs, chemicals, medicines, compounds or preparations thereof, and explosives
7. Dyes, pigments, coatings, and filling matters
8. Yarns, threads, twines, cordages, and materials thereof
9. Tissues and manufactures thereof
10. Pulp for paper making, papers, paper manufactures, books, and pictures
11. Clothing and accessories thereof
12. Minerals and manufactures thereof
13. Potteries, glass, and glass manufactures
14. Ores and metals
15. Metal manufactures
16. Clocks, watches, scientific instruments, firearms, vehicles, vessels, and machinery
17. Miscellaneous articles

Beginning in 1934, Japan began a more vigorous application of exchange control and restrictive legislation. This was accelerated in part by the Sino-Japanese War, which began in 1937, and in part by the example of other nations. Japan decided to rely upon bilateral agreements

to control trade balances with each nation and to establish a two-column tariff. One of the columns was to contain the nearly prohibitive rates, while the lower rates of the other could be obtained by granting most-favored-nation treatment to Japanese goods. State control asserted itself in all branches of finance, industry, and trade. Efforts to bring about self-sufficiency were continued. Laws were passed having to do with new industries, foreign trade control, and the iron and steel industry. In October the Ministry of Commerce, acting under emergency powers, promulgated new restrictions on the import trade. Some commodities were licensed. The importation of others was prohibited entirely. The export of still others was restricted. Among the imports subject to permit were raw cotton and lumber. The prohibited goods were generally of secondary importance but constituted a $2,000,000 market for United States goods. They included canned fruits, dried milk, sheepskins and goatskins, plate and sheet glass, certain photographic apparatus, radio receiving sets and parts, chewing gum, fresh and dried fruits, and canned and preserved vegetables. Since 1930, Japanese custom duties have contributed between 7.4 and 10.1 per cent of the total revenue.

Trade Agreements. During 1937 an unofficial understanding covering textile products was reached with United States producers; a treaty with British India was renewed; agreements were reached with Turkey, Siam, and Italy; and closer trade relations with Germany followed the signing of the Anti-Comintern Pact.

On July 26, 1939, the United States gave notice of her intention to abrogate the most-favored-nation Treaty of Commerce and Navigation, which had been in effect since February 21, 1911. Secretary Hull's communication read in part:

> During recent years the Government of the United States has been examining the treaties of commerce and navigation in force between the United States and foreign countries with a view of determining what changes may need to be made toward better serving the purposes for which such treaties are concluded. In the course of this survey, the Government of the United States has come to the conclusion that the Treaty of Commerce and Navigation which was signed at Washington between United States and Japan on February 21, 1911, contains provisions which need new considerations. Toward preparing the way for such consideration and with a view to better safeguarding and promoting American interests as new developments may require, the Government of the United States, acting in accordance with the procedure prescribed in . . . . the treaty under reference, gives notice hereby of its desire that this treaty be terminated, and, having thus given notice, will expect the treaty, together with its accompanying protocol, to expire six months from this date.

Early in 1940, however, a Japanese imperial ordinance granted temporarily conventional tariff rates to goods from this country.

Government and Industry. Unlike the Latin-American governments which have been seeking to establish small industries, that of Japan gave up this paternalism and sought to encourage large-scale activities. This was not entirely of recent origin, however. Already in 1930, plans had been drawn up for the union of all private iron and steel companies with the Imperial Steel Works, which was founded by the government in 1901, and with other government units. The merger in 1934, nevertheless, involved only one governmental unit and six private plants. The new firm, called the "Japan Iron Manufacturing Company, Ltd.," was the largest. Strict government supervision over exports and the use of steel; a flexible attitude toward imports, which were placed on the free list when needed; and the control of prices of iron and steel products foreshadowed similar treatment that might have been expected by other industries. In 1940, for example, 161 concerns were merged. Cotton spinning, artificial fiber industries, and the industrial machine industry had already felt its effect.

By March of 1941, of the 77 members of the Cotton Spinners' Association, 76 had been merged into 14 blocs, each having a minimum of 500,000 spindles. In this process many small-scale establishments were forced out—possibly as many as 67 per cent.[1] The control of raw cotton and the complete supervision of the silk industry under the Japan Silk Control Company were in the offing as well.

Japan as a Member of the Axis. The attempts of Japan to increase its territory and to become self-sufficient transformed her into a totalitarian country—a land of innumerable restrictions on individuals and a ubiquitous government. This, too, is not novel in Japanese history. The government has never had to intervene in the lives of its citizens because it had never been removed by a "Bill of Rights" or a "Declaration of Independence." It never had to force its way into agriculture or industry because it has long been there in the form of tariffs, subsidies, and preferential transportation rates to facilitate exports and through the rigid control in every aspect of the rice trade since 1921, through the complete government monopolization of tobacco since 1904 with a duty of 355 per cent ad valorem imposed in 1911, through government aid to the silk industry, and through a system of agricultural warehousing.

In September, 1940, Japan, Germany, and Italy signed a Tripartite Pact pledging co-operation in pursuit of their respective efforts toward world power. This, in turn, accelerated internal activities necessary for the support of such a position. Government control over the distribution and pricing of foods and necessities and the rationing of many essentials resulted in a constant decrease in living standards, especially in urban centers. Mr. James R. Young, writing in the *Atlantic Monthly* (February,

[1] International Reference Service, *Economic Conditions in Japan during 1940 and Early 1941*, (Washington, D.C.: U.S. Government Printing Office, 1941), p. 3.

1941) has given an eye-witness account of what occurred in Japanese cities. At the time of his writing, Tokyo's population of 6,500,000 persons consumed but 12,000 gallons of milk a day, or about one quart for every 135 persons. Many items such as chocolate, spices, oils, and condiments had disappeared, while others had become prohibitive in price. The sale of cotton cloth and clothing made of cotton had already been prohibited in 1939 and an unsatisfactory artificial fiber substituted for them. The scarcity of paper had caused the suspension of 3,000 newspapers and magazines. The government had made post cards thinner and had reduced the size of the telegraph blanks. Electricity had been rationed, the current having been cut off in some areas every other day. The manufacture of electric devices such as refrigerators, irons, washing machines, and vacuum cleaners had ceased. Thirty-watt bulbs had displaced those of greater size, because of the scarcity of tungsten. People, according to the same writer, found it necessary to take in their pumps at night as a precaution against water thieves and metal thieves. The lack of copper wire and switchboards had pushed the price of a telephone to $500, so that a person having one could mortgage it much as one might mortgage an automobile or tractor. The scarcity of gasoline had brought on strict control. Not only were taxicabs off the streets from midnight to 6:00 A.M., but even ambulance service was curtailed. The government had been paying a subsidy of $1,500 to busses and trucks operating on charcoal. The bootlegging of rice, cotton, leather, gasoline, and other products had caused "economic" police to arrest 688,000 businessmen on suspicion within two years. "Thought" police in plain clothes had been placed in strategic places to arrest discontented persons who gave voice to their grievances. Some 1,200 college teachers had been arrested by them.

Japan and French Indo-China: July, 1941. On July 26, 1941, Japan took over strategic bases in French Indo-China, the biggest of the French colonies, with the permission of the Vichy government and offered the following explanation:

> French Indo-China and Japan have from olden times been closely bound in cultural, historical, and economic relations. Prior to the closing of Japan to foreign intercourse by the Tokugawa Shogunate, there were two Japanese towns each in Annam and Cambodia and very prosperous trade was carried on with Japan.
>
> However, these relations were interrupted when the Shogunate prohibited the Japanese from going abroad. In recent times Indo-China has re-established her old relations with Japan in a new sense as a source of materials for the industries of Japan.
>
> Relations of late steadily have become closer and more cordial with Indo-China constituting an important link in the sphere of common prosperity in Greater East Asia which Japan is endeavoring to establish.

Fully appreciating such close relationship, France definitely recognized the pre-eminent position of Japan in Indo-China through an exchange of documents . . . . in August of last year.

Then, in May this year, she concluded with Japan the economic agreement and signed the protocol concerning political understanding, striving thereby to solidify their good neighborly and amicable relations between Japan and Indo-China. France has thus consistently continued her friendship and cooperation with Japan.

However, internal conditions in Indo-China recently have been greatly affected by changes of the situations in Europe and East Asia, with increasing signs that even the security of Indo-China would be threatened if such developments were left alone.

If, by any chance, the situation so developed that Indo-China was thrown into a chaotic condition, it could not in self-defense be overlooked by Japan, not to mention France herself.

It has been keenly felt, therefore, by both Japan and France that they are bound together by a very close relationship as well as common interest with regard to the position of Indo-China.

From such a point of view the government carried on negotiations through Ambassador Kato at Vichy. These negotiations progressed smoothly, in an extremely friendly atmosphere, and on July 21 a complete agreement of views was reached concerning their joint defense of Indo-China.

Japan and France thus have been ushered into more intimate relations, with Indo-China serving as a connecting link. Needless to say this will contribute powerfully toward stabilization, co-existence and co-prosperity of Greater East Asia.

It scarcely needs to be reiterated that the government intends strictly to observe various existing agreements between Japan and France concerning Indo-China and to respect the territorial integrity and sovereignty of Indo-China.

Japan will put forth increasing efforts for promotion of Japanese-French friendly relations, thereby realizing the common prosperity of the two countries.

The United States immediately characterized this as an aggression tending to endanger vital supply lines of this country and joined Great Britain and Canada in freezing Japanese assets in the respective countries. This action was similar to that invoked against various European countries on June 14, 1941. All financial, import, and export transactions thus passed under control of the United States government. In the Executive Order, the reason given was "to prevent the use of the financial facilities of the United States, and trade between Japan and the United States, in ways harmful to national defense and American interests, to prevent the liquidation in the United States of assets obtained by duress or conquest, and to curb subversive activities in the United States." Simultaneously, but for the purpose of helping China and at the specific request of Generalissimo Chiang Kai-Shek, all Chinese assets in the United States were frozen. In this way some protection could be afforded Chinese assets of sections

then occupied by Japan. The Chinese government and the Central Bank of China were exempted, of course, from the freezing controls.

Under the order no United States businessman could carry on trade with Japan or any Japanese national except on express permission from the Treasury Department. Thus, oil shipments, which for two years had been sanctioned by this government in an attempt to appease Japan and to forestall aggression in the South Pacific, came under this new order.

Great Britain accompanied her freezing order with a notice of denunciation of the Anglo-Japanese treaty of commerce of 1911, the India-Japanese commercial agreement of 1934, and the Burma-Japan commercial agreement of 1937. Separate, but simultaneous, action was taken by the British nations—South Africa, Bombay, Australia, Singapore, the Federated Malay States, and Burma—regions holding millions of dollars of investments and markets for Japan. Supplies of wheat and lead from Australia; cotton from India; tanning extracts from Australia; zinc from Burma; and iron, manganese, and bauxite from Malaya were cut off entirely or severely restricted.

Japan retaliated by freezing all United States assets in Japan. Among the companies affected were the Standard and Tidewater Oil Companies, the National Cash Register Company, the National City Bank of New York, the International General Electric Company, and many moving picture firms.

Japanese Trade Relations. From Table 21 it may be seen how in recent years the United States has been consistently both the largest buyer of Japanese products as well as the largest source of Japanese imports, accounting for from one-fifth to one-third of the exports and supplying one-third of the imports, thereby equaling or exceeding the trade between Japan on the one hand and Germany, the United Kingdom, British India, China, and Australia on the other.

TABLE 21

JAPANESE TRADE RELATIONS, 1929–39

Year	Exports Percentage to—					Imports Percentage from—				
	U.S.	U.K.	China	Brit., India, and Ceylon	Austr.	U.S.	U.K.	China	Brit., India, and Ceylon	Austr.
1929......	42.5	3.0	16.1	9.2	2.0	29.5		9.5	13.0	6.0
1930......	34.4	..	...	...	..	28.7	..	10.5	11.6	6.1
1931	37.1	4.7	13.6	9.6	1.6	27.7	.	11.8	10.7	9.1
1932......	31.6	4.3	11.0	13.7	2.6	35.6	..	9.0	8.2	9.4
1933......	26.4	4.7	10.2	11.0	2.8	32.4	..	13.6	10.7	10.7
1934......	18.4	5.1	10.3	11.9	2.9	33.7	..	12.5	12.8	8.7
1937......	20.1	5.3	5.6	...	2.2	33.5	2.8	3.8	...	4.5
1938	15.8	5.0	11.8	...	2.5	34.3	2.3	6.1	...	3.1
1939......	17.9	3.6	21.7	...	2.0	34.3	0.8	7.3	...	2.4

United States–Japanese Trade Relations Viewed Quantitatively. The principal commodity entering into United States trade with Japan is raw silk. It accounted for 53 per cent of our imports from Japan in 1920, 82.2 per cent in 1922, 83 per cent in 1927 and 1928, 51 per cent in 1937, and 63.5 per cent in 1938. The larger figure for 1938, however, is not to be taken as evidence that we purchased more silk in the latter year. Rather it was the result of a general decline in the imports of other items. The largest value item among our exports to Japan has been cotton, but there has been a decline in recent years. Whereas, in 1932 cotton accounted for 63 per cent of our exports, it had declined to 52.3 per cent in 1934, 21 per cent in 1937, and 22 per cent in 1938.

In 1929, eight classes of commodities accounted for 80 per cent of our sales to Japan—wheat, raw cotton, sawmill products, petroleum and its products, iron and steel, industrial machinery, automobiles, and chemicals. The same commodities made up 77 per cent of our sales in 1937, but the part played by each was quite different. Wheat had dropped from $8,515,000 in 1929 to $41,000 in 1937; cotton had fallen from $109,399,000 to $61,724,000; sawmill products had fallen substantially; chemical products and automobiles had declined. But noteworthy increases in petroleum, iron and steel, and the sale of industrial machinery offset these decreases. Again, in 1938, the same items, except for wheat, came to 76 per cent of total sales. The value figure for petroleum almost equaled that of raw cotton.

Seven classes of commodities—raw silk, chinaware, earthenware, camphor, cotton manufactures, fish and fish products, and tea represented 87 per cent of Japanese sales in the United States market in 1929, 86 per cent in 1932, 64 per cent in 1937, and 78 per cent in 1938. The decline in 1937 was not due to a falling-off in the total value but because the value of all the imports for that year greatly exceeded 1932. As compared with 1932, the sales of many other items such as undressed furs, bristles, fish scrap, oil cake and oil cake meal, vegetables and preparations, toys, metals and manufactures, paper, etc., were greater.

Trade relations in 1940 were disturbed by the absence of a commercial treaty between the two countries and by the restrictive influence of export control by the United States on such items as machinery, tools, aviation gasoline, a number of industrial chemicals, scrap iron, iron and steel semimanufactures which Japan ordinarily sought in this market. One result after April, 1941, was the decision of the Japanese government to convert the iron fences surrounding the Navy, Justice, Education, Home, and Commerce Ministries into scrap iron. The same was done with scrapers, bicycle stands, and chains. Japanese sales in the United States market showed a decline as well. The total exports of raw silk in 1940 declined 25 per cent, as compared with the previous year—most of the

decrease having been in United States purchases. Another maladjustment in Japanese trade was shaping itself in the Philippine Islands, where Japan had held second place only to the United States. Normally, the United States had supplied 63 per cent and Japan about 13 per cent of all Philippine purchases. In 1938 the share of the United States was 68 per cent, and the Philippines had become our eighth best customer. In turn, the United States purchased about 80 per cent of the Philippine exports, and Japan, the second best market, normally absorbed 6 per cent. The Soviet market showed little improvement in 1940, and such hopes as the Japanese placed in the trade agreement effective in 1941 with Russia, whereby the former would obtain petroleum products, manganese ore, platinum, fertilizers, and general merchandise in return for raw silk, cocoons, machines, instruments, camphor oil, and merchandise, were shattered by the Russian-German War in the middle of the year. Finally, the freezing of Japanese funds, referred to above, left Japanese commerce in a very poor condition. Temporarily, at least, Japan had become Indo-China's best customer. Here she obtained large quantities of coal, maize, rice, and the potential wealth of an area of 285,000 square miles (larger than Japan itself) occupied by a population of 23,000,000 persons. In turn, this region afforded a market for Japanese exports of the cheapest type.

Japan and World War II. The defeat of Japan might be regarded as having abruptly ended any gradual developments which might have brought about a modification in Japanese commercial policy. The public renunciation by the Emperor of his "divinity," the surrender of 90 per cent of his fortune, the adoption of a new constitution, the emancipation of women, and the complete change in the educational system, as well as the psychology of defeat, have all contributed to a much-modified Japan whose future form is now in the making.

For an indefinite period, Japan, stripped of her colonies and spheres of influence, will be under international control. The period of reconstruction will necessarily slow down any chance of regaining her pre-war share of international trade. On March 1, 1946, the Department of State released the plans for United States trade with Japan. Complete operating responsibility for all imports and exports was given to General MacArthur, Supreme Commander for the Allied Powers. Japanese exports to the United States were to be handled through the Reconstruction Finance Corporation's subsidiary known as the "United States Commercial Company." The procuring of imports was to remain the problem of the War Department. Accordingly, direct trading relations by private citizens remained something for the indefinite future.

Allied control of foreign trade was necessary in the absence of financial stability and the impossibility of establishing any exchange rates. It was also necessary in order to maximize exports to raise funds for Japanese

occupation and reconstruction and because travel by Japanese buyers outside of Japan and lodging facilities for American buyers in Japan were not feasible. Finally, Allied interests had to be protected.

The wartime loss of textiles[2] (One can picture the destruction of from one-half to three-fourths of Tokyo, Yokohama, Kobe, Osaka, and Nagoya) has been estimated at 2,033,000,000 square yards. Japanese dependence on the outside world for raw materials for textile making suggests the need for large imports. The cotton trade dropped to about 10 per cent of capacity. On the recommendation of General MacArthur the latter is to be the first industry to receive United Nations aid. This is taking the form of several hundred thousand bales of United States cotton held by the Commodity Credit Corporation. The cotton is to be paid for by the sale of Japanese textiles to the United States Commercial Corporation.

The Allied policy is expected to be favorable to the building-up of Japanese exports as a part of the occupation program, but it is assumed that much of the exports will go to Asiatic markets possibly on a barter basis. Raw silk and a few other items will make their reappearance in trade with the United States. The government of the United States has shown no disposition to grant any financial aid in the rebuilding of Japanese facilities for producing exports, however.

At the present time the country is short of food. The rice crop, which normally furnishes about 60 per cent of the calories of the Japanese diet, needs rebuilding. Available fertilizer has been about 25 per cent of normal. The Japanese fishing industry is about 60 per cent of normal. Export industries, especially those in the bombed areas, will be slow in staging a comeback. Japan's silk exports are conditioned by mulberry acreage, which was cut from 1,749,999 acres to 524,000 acres. Silk production has declined from 710,314 bales to approximately 100,000 bales in 1945. The current production might reach 170,000 bales, of which 135,000 may be available for export. Prediction as to the future is impossible because of the many uncertainties in the international picture. A certain degree of private trading between the United States and Japan began on August 15, 1947.

CHINA

The Opening of China to World Trade. The history of China and the history of her international trade are inextricably linked together, much like that of Japan although in a much greater degree. For practical purposes, China remained closed to the rest of the world until the middle of the eighteenth century. Prior to this time the Portuguese had carried on some trade relations and some missionaries had won a precarious

[2] Based on *Foreign Commerce Weekly*, March 23, 1946, and April 13, 1946.

foothold. In 1784 the first United States merchant ship had entered the China trade, and again in 1785 Captain Dean reached Canton in a little sloop of eight tons manned by seven sailors. In 1793, Britain had obtained the right to trade at Canton. Through the energies of the British East India Company the English assumed an early lead in this trade. But the share of the United States was not insignificant. Between 1821 and 1833 our direct trade with Canton varied from $1,000,000 to $5,000,000 worth of exports and between $3,000,000 and $7,000,000 of imports. The exports included furs, ginseng, cotton cloth, raw cotton, specie, opium, and quicksilver. Our imports consisted mainly of tea, silk, nankeens, and chinaware. United States ships also carried on a trade between China and the rest of the world. Chinese trade, however, was still subject to paralyzing restrictions. Non-Chinese traders not only were restricted to one port and compelled to live in small areas or "factories" but were obliged to carry on all their transactions through Chinese merchants in much the same way as the early traders did in Constantinople and in the Italian cities in medieval and early modern times. Their lives were strictly controlled even as to their residence during slack trading seasons, and their intercourse with Chinese was kept at a minimum, since no Chinese was permitted to teach his language to a foreigner.

Occasional attempts of governments to win trade concessions, or even a modicum of diplomatic recognition, all met with failure because the Chinese did not place any other government on a par with their own. In 1834, however, British merchants began a series of aggressive demands which led to the abolition of the monopoly of trade enjoyed by the East India Company and to the realization by their government that more privileges in this trade were needed to satisfy them. This consideration, together with that of the opium trade, brought on the so-called "Opium War," 1839–42.

The Opium War and the First Breach in the Chinese Wall. The background of the Opium War was essentially this: The Chinese government had for a long time forbidden the importation of opium into China, a situation which played into the hands of foreign merchants who were able "to reach" corrupt Chinese officials. When, therefore, in 1839, the government sent an able commissioner to Canton to suppress this illegal trade through the confiscation and destruction of opium supplies found in possession of the merchants and when the commissioner demanded surety that they would give up its importation, Britain took exception. The war dragged on from 1839 to 1842 and ended in the Treaty of Nanking. This treaty granted to Britain the island of Hong Kong; opened up five ports for trade and residence, including Shanghai; and promised a "fair and regular tariff" in place of arbitrary exactions. During the next year a supplementary treaty not only fixed tariff rates and

granted the most-favored-nation treatment to Great Britain but also laid the basis for extraterritoriality which persisted until quite recently.

At this time the United States sent Caleb Cushing[3] to China, and he negotiated a treaty granting to this country the privileges won by England. France did likewise in 1844 and was followed by Belgium and Sweden.

The first breach in the wall, however, far from satisfying the foreign merchants, whetted their appetites for more rights. In 1857, minor causes brought on another war in which both Britain and France were involved —a war that would have come sooner except for preoccupation with the Crimean War and other pressing matters. It ended with the Treaty of Tientsin in 1858, only to flare up on the occasion of ratification in 1859–60. As a result, the Chinese tariff was modified, the importation of opium was legalized, additional ports were opened, more rights were extended to foreigners, and some territory was ceded.

During the next few years the need for revenue caused the government to impose internal transit taxes (likin) and to set up the Imperial Customs which was a system of import duty collection through foreigners. This latter device proved extremely successful.

Further Breaches: 1860–1900. The next forty years were repetitions —almost monotonously so. Underlying the events were the greed of the traders, abetted by their respective countries, and the growing dislike of all foreigners by the Chinese. But the surface causes were usually minor events—the killing of a missionary by some irresponsible person or a similar grievance. It was on this pretext that Germany demanded and obtained a ninety-nine year lease on Shantung together with railroad and mining concessions, while Russia took advantage of the situation to occupy Port Arthur and then to obtain a twenty-five year lease on Kwangchowan. Britain wrested one for Weihaiwei "for so long a period as Port Arthur shall remain in the occupation of Russia."

This was also the period when France, Great Britain, Japan, Germany, and Russia "divided" China into spheres of influence, not so clearly defined as the policy in Africa, but recognizing prior economic rights of one nation in a given area or sphere and implying not only that that particular area should not be alienated to another but that, should the "divided" country ever disintegrate, ownership might follow. Our Secretary of State, John Hay, succeeded, nevertheless, in winning recognition of a policy from those countries, and Italy as well, that these spheres would not interfere with treaty rights enjoyed by other nations or with the Chinese tariff rate itself. This had since become known as the "open-

[3] Caleb Cushing on his way home decided to come through Mexico. There he was robbed of his luggage. This was one of the "causes" of the United States–Mexican War.

door policy." As stated by Mr. Hay in a memorandum to our ambassador to Germany, he wanted the assurance that the spheres of interest:

First. Will in no way interfere with any treaty port or any vested interest within any so called "sphere of interest" or leased territory [the United States] may have in China.

Second. That the Chinese treaty tariff of the time being shall apply to all merchandise landed or shipped to all such ports as are within said "sphere of interest" (unless they be "free ports"), no matter to what nationality it may belong, and that duties so leviable shall be collected by the Chinese Government.

Third. That it will levy no higher harbor dues on vessels of another nationality frequenting any port in such "sphere" than shall be levied on vessels of its own nationality, and no higher railroad charges over lines built, controlled, or operated within its "sphere" on merchandise belonging to citizens or subjects of other nationalities transported through such "sphere" than shall be levied on similar merchandise belonging to its own nationals transported over equal distance.

In its broadest aspect, this memorandum suggests that the United States does not demand special privileges for her citizens elsewhere but, at the same time, will not countenance discrimination against them. Professor Young suggests that this "firm position taken by the United States . . . . had been to a large extent responsible for the territorial and economic integrity of China, in so far as this has existed."[4]

Again, in 1902, our State Department raised a somewhat similar question in regard to the granting of exclusive privileges to foreign companies in the development of China. A memorandum dated February 1, 1902, reads as follows:

An agreement by which China cedes to any corporation or company the exclusive right and privilege of opening mines, establishing railroads, or in any other way industrially developing Manchuria, can but be viewed with the gravest concern by the Government of the United States. It constitutes a monopoly, which is a distinct breach between China and foreign powers, and thereby seriously affects the rights of American citizens; it restricts their rightful trade and exposes it to being discriminated against, interfered with, or otherwise jeopardized, and strongly tends toward permanently impairing the sovereign rights of China in this part of the Empire, and seriously interferes with her ability to meet her international obligations. Furthermore, such concessions on the part of China will undoubtedly be followed by demands from other powers for similar and equal exclusive advantages in other parts of the Chinese Empire, and the inevitable result must be the complete wreck of the policy of absolute equality of treatment of all nations in regard to trade, navigation, and commerce within the confines of the Empire.

[4] Young, John Parke, *International Trade and Finance* (New York: Ronald Press Co., 1938), p. 292.

On the other hand, the attainment by one power of such exclusive privileges for a commercial organization of its nationality conflicts with the assurances repeatedly conveyed to this Government by the Imperial Russian ministry of foreign affairs of the Imperial Government's intention to follow the policy of the open door in China, as advocated by the Government of the United States and accepted by all the treaty powers having commercial interests in that Empire.

It is for these reasons that the Government of the United States, animated now, as in the past, with the sincerest desire of insuring to the whole world the benefits of full and fair intercourse between China and the nations on a footing of equal rights and advantages to all, submits the above to the earnest consideration of the Imperial Governments of China and Russia, confident that they will give due weight to its importance and adopt such measures as will relieve the just and natural anxiety of the United States.[5]

In 1900, antiforeign feeling, sponsored by certain responsible leaders but aggravated by an intermixture of rowdies, culminated in what since has been called the "Boxer Uprising" with its formidable motto, "Protect the country, destroy the foreigner." The empress dowager, too, was so carried away as to give official sanction to this cry and to order all foreigners killed. Put down by action of the Great Powers, it resulted in an indemnity of more than $335,000,000 assessed against China in 1901.

World War I. The first World War began on July 28, 1914; and by August, Japan, taking advantage of conditions, had driven the Germans out of Shantung. In 1915 she made a series of demands on China which she hoped to keep secret but which aroused considerable opposition not only in China but elsewhere. Japan demanded Shantung; a lease in Port Arthur of ninety-nine years; various privileges for Japanese; the converting of China's largest iron mining and smelting concern into a Chino-Japanese company; the promise not to cede or to lease any harbor, bay, or island to a third person; the employment of Japanese as advisers to the central government of China; the administration by Japanese as well as Chinese of police departments in certain districts; the pledge to buy 50 per cent or more of all munitions from Japan or the erection of a Chino-Japanese company for their manufacture using Japanese materials and under Japanese supervision. China was unable to reject most of these demands, although she reserved for later consideration the elements of Japanese advice in government and police affairs and munitions supplies.

China's attempts to win back a full degree of sovereignty at the Versailles Peace Conference were unsuccessful. But at the Washington Conference, 1921–22, nine powers entered a treaty promising to respect the sovereignty, territorial, and administrative integrity of China, to recognize formally the open-door policy, to accept a 5 per cent level of custom duties and to provide for a special tariff conference and the readjustment

[5] *Papers Relating to the Foreign Relations of the United States, 1902* (Washington, D.C.: U.S. Government Printing Office, 1903), pp. 275–76.

periodically of the tariff system, to consider the abandonment of extra-territoriality and other limitations, and to plan for the ultimate removal of armed forces. The tariff conference held in 1926 went beyond the promises held out in 1922 and agreed to a national tariff effective January 1, 1929, in return for which the likin or internal transit tax was to be abolished.

In 1931 a troublesome situation in Manchuria came to a head. China lost this valuable possession, which, under the name of Manchukuo, became a Japanese puppet-state ruled over by the last Manchu Emperor of China. China's appeal to the League of Nations and the subsequent condemnation of Japan led the latter to resign from the League. In 1934 all China was declared to be a Japanese preserve—a position which virtually made Japan a party to all that concerned China in her external relations.

The Tariff Policy of China. These considerations have taken us somewhat beyond our story, and we must retrace our steps momentarily to form some impression of the tariff policy of China. We have seen how the Great Powers denied China tariff autonomy and how the tariff was determined by treaty and hovered around 5 per cent ad valorem. In addition, we have noted the likin or internal transit tax which had much the same effect as a tariff.

China also employed an export tariff. In 1890 the list covered about thirty commodities, including camphor, carpets and rugs, castor oil, chinaware, raw cotton, preserved eggs, fans, lacquered ware, rice, tea, tobacco, as well as products peculiarly Chinese in origin. In recent times (1932) export duties have been applied on agricultural products such as bran, buckwheat, wheat flour, sorghum and maize, millet, rice and paddy, and certain vegetable products. The ad valorem rates varied between 5 and 7½ per cent ad valorem, and the specific rates were supposed to approximate 5 per cent.

In 1932 the Chinese tariff on imports contained ad valorem rates ranging from 7½ to 60 per cent. Rates were increased in 1933 on kerosene, tobacco, and other products. On July 3, 1934, new tariff schedules became effective. Rates were raised on some items, while those on cotton piece goods and marine products were lowered. On June 26, 1935, there went into effect a revised export tariff. Large numbers of items were placed on the free list, and the rates on most others were reduced.

The effectiveness of the Chinese tariff was somewhat lessened by the element of smuggling goods across the boundaries of both northern and southern China. In 1936 the value of goods thus brought into China was estimated between 150,000,000 and 300,000,000 yuan. This, together with imports for government use, represented about 21 per cent of the total imports which produced no revenue. In general, however, the Chinese customs have yielded over one-third of the government's receipts in recent years.

The Sino-Japanese War of 1937. On July 7, 1937, the so-called "Chinese Incident" of LuKouChiao Bridge marked the opening of hostilities once again between China and Japan. By the end of that year, Japan occupied five provinces, including Shantung, the port through which 50 per cent of Chinese foreign trade normally passed, and the region housing much of Chinese industry. In 1938 Japan set up a provisional government for China in the Northern China area and reduced drastically the Chinese Maritime Customs on important imports.

During these years of war Chinese foreign trade had been badly crippled. A naval blockade closed the last ports in Chinese hands along the Chekiang coast; the Burma Road was closed for a time by agreement between Great Britain and Japan; Japanese military bases made the railroads from Haiphong to Kunming useless. The only road left open was the unimproved one to Russia across Turkestan. But, as one writer summarized the situation: "The only slender cord that may be held out as a lifeline to hope is that China—so far in her long history—changes but is never destroyed, depressed but never discouraged, and trade in some form or another is a living element in the bloodstream of every Chinese. He will trade somewhere, somehow, with someone, as long as he breathes."[6]

Chinese Trade Relations. Table 22 gives the Chinese trade relations with her most important customers and suppliers from 1926 to 1939, the year in which the war began. From 1926 through 1932 Japan was the best customer for Chinese goods. She was also the chief source of supply until 1930. Hong Kong, the free port where no import or export taxes are imposed and as such the entrepôt for half of China's trade, occupied the position of second-best customer from 1927 to 1932 and that of best customer in 1933 and 1934. In 1935 the United States moved into that position. In 1931, Japan gave up her rank to the United States which has maintained that place since that time.

In referring to Chinese trade in the period of the twenties, which he calls "the golden age before the Great Depression," Mr. Moser reminds us that China was one of the world's greatest trading nations, having exported merchandise valued from $400,000,000 to over $650,000,000 annually and having imported goods to a value reaching almost $1,000,000,000. In 1938 our exports to China dropped to $34,719,000—the lowest figure since 1916—and our imports dropped 54 per cent from those of 1937 and 36 per cent from the year before (Table 22).

United States–Chinese Trade Relations. We have just seen that the United States has loomed large in Chinese trade and that the Sino-Japanese War had seriously affected the amount of that trade. In 1939 and 1940, close to 90 per cent of our exports to China entered at Shanghai

[6] Moser, Charles K., "Economic Resources of China," *Foreign Commerce Weekly*, October 26, 1940, p. 147.

TABLE 22

CHINESE TRADE RELATIONS, 1926–39

Year	Exports Percentage to—					Imports Percentage from—				
	U.S.	Ger.	U.K.	Hong Kong	Jap	U.S.	Ger.	U.K.	Hong Kong	Jap
1926	17.4	2.1	6.5	10.9	24.5	16.4	4.0	10.2	10.9	29.4
1927	13.3	2.2	6.3	18.5	22.7	16.1	3.8	7.3	20.6	28.4
1928	12.8	2.3	6.2	18.4	23.1	17.0	4.6	9.4	18.7	26.4
1929	17.1	2.2	7.3	17.1	25.2	18.0	5.2	9.3	16.7	25.2
1930	14.7	2.6	7.0	17.7	24.2	17.5	5.2	8.2	16.4	24.6
1931	13.2	2.5	7.1	16.3	29.1	22.3	5.8	8.3	15.2	20.2
1932	12.3	6.1	7.6	15.3	21.8	25.4	6.7	11.2	5.7	14.0
1933	18.6	3.4	8.0	19.4	15.6	21.9	7.9	11.3	3.5	9.7
1934	17.8	3.6	9.3	18.9	15.2	26.2	9.0	12.0	2.9	12.2
1935	23.8	5.0	8.6	16.5	14.2	19.0	11.1	10.5	2.2	15.0
1936	26.4	5.5	9.2	15.1	14.5	19.6	15.9	11.7	1.9	16.3
1937	27.6	8.6	9.6	19.4	10.1	19.8	15.3	11.7	2.0	15.7
1938	27.5	8.4	9.5	19.4	10.0	19.7	15.3	11.6	1.9	15.9
1939	13.8	2.7	5.5	13.6	4.0	15.9	6.4	5.8	2.6	23.3

and other Japanese-controlled ports. Accordingly, exports sent to free Chinese regions directly were negligible.

Our most important groups of exports to China in 1939 were essentially raw cotton; metals; vehicles; cereals and flour; various metal manufactures; tobacco; chemicals and pharmaceuticals; dyes, pigments, paints, and varnishes; candles, soap oils, fats, waxes, gums, and resins; books, maps, paper, and wood pulp; and timber. Each of these classes exceeded $1,100,000 and accounted for over $79,700,000 of our total exports ($86,-249,000) to occupied and unoccupied China in 1939 (Table 23).

TABLE 23

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO CHINA, 1929, 1937, AND 1938*

Commodity	Unit	1929	1937	1938
Wheat flour	1,000 bbls.	1,175	17	225
Unmanufactured tobacco	1,000 lbs.	108,695	49,793	60,081
Raw cotton	1,000 bales	230	9	43
Sawed timbers and boards	1,000 bd. ft.	292,272	65,718	47,811
Gas oil and fuel oil	1,000 bbls.	588	528	369
Lubricating oil	1,000 bbls.	229	308	67
Tin plate	1,000 lbs.	84,527	59,279	10,004
Motor trucks and busses	Number	1,566	2,342	4,455
Passenger automobiles	"	1,396	1,362	1,136
Airplanes, seaplanes, and other aircraft	"	24	41	142
Coal-tar dyes and colors	1,000 lbs.	24,528	6,291	2,020
Iron and steel plates and sheets	"	17,590	76,679	14,857

* Selected from *Foreign Trade of the United States in 1938*, pp. 110–11. All items selected were valued at $250,000 or more in 1938.

Our purchases from China have belonged almost entirely to the raw-material class. Many of the products have been agricultural in origin—cotton, wool, silk, and tea. Some have been animal products—hides, furs, and bristles. Some have been mineral in origin. A very few, such as handkerchiefs and firecrackers, may be called manufactures. Table 24 shows the more important items which enter this trade in fairly normal times.

TABLE 24

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM CHINA, 1929, 1937, AND 1938*

Commodity	Unit	1929	1937	1938
Sausage casings	1,000 lbs.	1,350	1,529	703
Egg albumen	"	4,058	2,839	715
Goat and kid skins	1,000 pieces	8,213	8,830	1,272
Kolinski fur	"	385	335	279
Weasel fur	"	1,103	1,566	949
Lamb, kid, sheep, and goat skin furs	"	2,592	2,750	1,034
Marmot	"	1,014	461	668
Dog, goat, and kid skin furs, dressed	"	2,197	546	168
Plates, mats, etc., of dog, goat, kid skins	"	363	542	250
Bristles, sorted, bunched, etc.	1,000 lbs.	4,912	3,734	2,860
Crude feathers	"	2,588	2,962	2,198
Walnuts	"	6,573	4,085	2,270
Peanut oil	"	145	22,701	7,470
Tea	"	8,741	6,621	6,307
Cassia,† cassia vera unground	"	3,166	5,235	5,214
Tung oil	"	109,549	159,330	100,054
Tea-seed oil	"	...	22,760	8,682
Raw cotton	"	15,525	24,808	18,774
Handkerchiefs	Thousands	4,204	39,309	42,132
Carpet wool	1,000 lbs.	52,715	28,675	2,489
Wool carpets, rugs	1,000 sq. ft.	4,085	1,375	1,291
Oriental rugs, carpet	"	3,649	923	577
Human hair, raw, Asiatic	1,000 lbs.	1,987	2,821	2,244
Horse hair	"	1,038	1,338	768
Raw silk	"	14,495	2,747	1,573
Silk waste, cocoons	"	5,062	2,954	1,505
Hats of straw, grass	Thousands	3,748	4,741	4,278
Tungsten	1,000 lbs.	3,661	4,234	621
Tin bars	"	817	10,007	4,669
Firecrackers	"	2,497	4,574	3,734

* Selected from *Foreign Trade of the United States in 1938*, p. 111.
† Cassia is a variety of cinnamon.

China and World War II. In general, it may be said that China lacked a fixed commercial policy during the war. Import restrictions and trade controls were fairly temporary. Distinction was made between necessities and nonessentials as in most other countries, the difference being in what the Chinese considered in these two classifications as compared to what nations with different standards called them. Such nonessentials as were not entirely prohibited were subject to licenses. Prohibited items

included a long list of commodities such as perfumes and cosmetics, toys, and higher-priced automobiles. Those subject to license consisted of sugar, tobacco, and kerosene. A third classification of goods, such as watches and cigarettes, were freely admitted but were subject to surtaxes ranging from 50 to 200 per cent ad valorem.

During the period of reconstruction, imports are being determined by a Temporary Import-Planning Committee, which takes into account the needs of China for goods as well as her ability to pay for them. Certain wartime export restrictions have been carried into peacetime economy—if this latter expression can be applied accurately to Chinese conditions. Some commodities are government monopolies for reasons of scarcity, national interest, or fiscal need. Export taxes changed little during the war and have now been brought back to the pre-war level.

INDIA

Introduction. India is an interesting example of a country, gigantic in size (1,800,000 square miles and a population of over 370,000,000), which until recently had not won independence or even the status of a dominion. Her internal economy is strongly reminiscent of medieval Europe, with local trade carried on through bazaars, weekly village markets, and annual religious gatherings, and by means of traveling peddlers, brokers, and agents.

The history of India is of peculiar interest also because it has been colored and controlled by the mercantilist device of the trading company. In 1600, Queen Elizabeth chartered the East India Company for trading with this region. By 1612 the company had driven the Portuguese from the area and had established a British settlement on the mainland. For two and a half centuries the company ruled India, appointing the governors, putting down insurrections, fighting wars, fixing taxes, and carrying on international trade. In 1776, Warren Hastings, who had been governor of Bengal, became, by appointment of the court of direction of the company, the first titular governor-general of India. The Company's control lasted until 1858, when under the terms of the "Act for the Better Government of India" the administration was turned over to Queen Victoria of England. The East India Company's army became a part of the British army, while the navy was abolished. In 1877, Victoria was proclaimed the Empress of India, and until 1947 India was governed by a viceroy appointed by the British ruler.

The Indian Tariff. The Indian tariff was purely a revenue producer up to the time of the first World War. It consisted of a general standard customs duty of 5 per cent and a long list of duty-free imports including hardware and railroad equipment. The rate on cotton piece goods which represented an enormously important class was only 3½ per cent. This

tariff was, accordingly, among the lowest of pre-war tariffs. The war witnessed a slight increase in the level, which in 1917 was 7½ per cent. But during the war certain new undertakings had sprung up producing numerous iron and steel products, certain types of paper, matches, wood pulp, and sugar. To protect these and to offset the effects of a postwar slump, the Indian government took advantage of its new constitution, allowing it to choose its own fiscal policy, and followed the advice of the Indian Fiscal Committee in 1921 to seek "rapid industrialization by means of discriminating duties." By 1922 the rate of 15 per cent ad valorem was typical. In 1923 an Indian Tariff Board was appointed to deal with applications for protection. The upward movement continued, and the typical rate by the end of 1931 was 25 per cent.

The effect of these increases may be illustrated by reference to cotton piece goods. In 1913, British India imported 3,057,000,000 yards of cotton piece goods from England. At that time the duty was 3½ per cent. By 1924 the number of yards imported had fallen to 1,705,000, and continued to fall lower as the duty increased. The rate early in 1933 was 25 per cent for British sources, 31¼ per cent for other countries. But by the end of the year, it had soared to 75 per cent but was lowered to 50 per cent as a result of a trade agreement with Japan.

India and the Ottawa Conference. At the time of the Ottawa Conference, then, India was a protectionist country. Although 25 per cent was the typical rate, semiluxuries paid 50 per cent, and machinery and similar products 10 per cent. There were few preferential rates favoring Britain beyond the 25 per cent rate on British cotton pieces. India gave a preference of 10 per cent on 162 classes of manufactured goods ordinarily subject to 25 per cent and 7½ per cent on motorcars and omnibuses.

The agreement was denounced by India in 1936, although it was retained temporarily until a new agreement became effective in 1939. It did not seem to have been popular with either British or Indian producers, both of whom saw no benefits for themselves. The British saw only advantages for the Indian producers, and the latter saw advantages only for Britain. The new agreement cut British preference drastically to twenty articles but provided for reciprocal benefits for raw cotton and cotton textiles. Although preference covered only 15 per cent of India's imports of British goods, it included about 80 per cent of Indian goods sent to the British market.

The effective rate of the Indian tariff in 1939 was a little over 30 per cent. The tariff has contributed 35 per cent or more of the receipts of the Indian government during the decade of the twenties and over 43 per cent during the decade of the thirties.

Other Trade Restrictions. In the spring of 1940 the government established a comprehensive system of import license control over a great

many articles coming from non-Empire sources—raw cotton, motor vehicles and accessories, rubber tires and other rubber manufactures, exposed motion picture films, radios, patent and proprietary medicines, toilet preparations, soap, tobacco products, fresh and preserved fruits, jams, pickles, beer, hardware, watches, clocks, stationery, toys, sports goods, firearms, cartridges, leather, haberdashery, and wearing apparel. Some Empire goods had been included as well—motor vehicles, medicines, rubber goods, and stationery.

India's Trade Relations. India has available for the markets of the world jute, raw and manufactured cotton, tea, oil seeds and vegetable oil, goatskins, leather, grain and flour, some iron and manganese, carpet wool, carpets and rugs, lac, mica, and cashew nuts. As the sole producer of jute, India enjoys an important position in all countries producing wheat, sugar, rice, and other products which are stored and shipped in bags and sacks. The United States has taken well over half of this export for many years. Jute and its products constitute about 25 per cent of all that India has for sale.

Cotton, both raw and manufactured, represents 21 per cent of Indian exports, while the sale of tea accounts for another 10 to 13 per cent. The latter is subject to an export tax of 40 per cent per 100 pounds, and the proceeds have been used to promote the sale of Indian tea in the United States market which has not shown a liking for it. Another equally important export is oil, principally castor oil, but also other kinds produced from seeds and vegetables—peanut oil, linseed, palm, coconut, etc. The Hindu objection to butter and the Mohammedan taboo on lard have had much to do with the growth of this industry. India, as the largest shipper of goatskins, has a ready market in the United States. We also buy most of the lac (the basis for shellac), in which India enjoys a monopoly, 50 per cent of the mica exports, and 80 to 90 per cent of the cashew nuts.

India's principal imports consist of cotton piece goods, machinery of all sorts, machine tools, office equipment, electric supplies, hardware, petroleum products, chemicals and allied products, breakfast foods and other foodstuffs, and raw cotton.

Table 25, figured in percentages, shows that the United Kingdom was not only India's best customer but also her chief source of supply. Japan ranked second in both respects. The United States was the third largest buyer and the fourth largest seller, with Germany occupying the third position. Over a period of years, Great Britain gained slightly as a buyer but was losing as a source of supply. Back in the fiscal year 1914–15, England supplied 67.4 per cent of Indian imports and, except for the year 1917–18, never fell below 50 per cent. Japan showed increasing importance as a supplier in the last decade.

Tables 26 and 27 show the products normally entering into the trade

relations of the United States and India. Our exports have consisted of some manufactured goods, such as cotton fabrics, automobiles, and typewriters; some processed products, such as tin plate; and some agricultural products. Our purchases have belonged entirely to the raw-material classification.

TABLE 25

INDIAN TRADE RELATIONS 1929–39

Year	Exports Percentage to—						Imports Percentage from—						
	U S.	U.K.	Jap.	Ger.	Fr.	It.	U S.	U K	Jap.	Ger	Fr.	It.	Bel.
1929	12.0	21.2	10.6	9.1	5.1	4.1	6.7	42.4	9.2	6.3	1.8	2.7	
1932	7.5	27.6	8.7	6.4	5.9	3.6	8.5	36.4	14.4	7.8	1.6	3.0	2.4
1933	9.5	30.2	9.7	6.5	5.9	3.9	6.2	41.0	14.2	7.5	1 3	2.5	2.4
1934	8.5	33.1	14.7	5.2	3.4	3.9	6.7	40.5	15.6	7.7	1.2	2.7	1.7
1935	9.7	30.4	13.7	4.9	4.1	2.8	6.6	39.3	16.0	8.4	1.0	1.8	1.6
1936	9.2	33.2	15.1	5.4	4.3	1.7	6.7	39.0	17.2	9.8	0.9	0.6	2.3
1937	10.6	32.6	12.7	5.0	3.4	3.4	6.4	31.5	14 0	9.2	0.8	1.6	2.0
1938	8.3	34.9	8.9	5.4	..	..	7.4	31.3	10.1	8.3	.	.	.
1939	11.6	31.6	7.5	1.8	..	..	7.3	25.4	11.1	6.4	..	.	.

During the war, Lend-Lease shipments caused our exports to India to leap from $33,441,000 in 1938 to a peak of $777,557,000 in 1944 and to $491,251,000 in 1945. Included in these figures are the non-Lend-Lease or "cash" exports of $49,105,000 for 1944 and $69,080,000 for 1945. Our purchases rose from $58,374,000 in 1938 to $125,784,000 in 1943, to $110,987,000 in 1944, and to $149,133,000 in 1945.

TABLE 26

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO INDIA, 1938*

Commodity	Unit	Quantity
Sardines	1,000 lbs.	204
Leather belting	"	234
Canned fruits	"	1,450
Automobile tires	Number	6,866
Unmanufactured tobacco	1,000 lbs.	3,588
Corn starch and flour	"	20,299
Raw cotton	1,000 bales	53
Cotton fabrics	1,000 lbs.	1,645
Wood pulp	Tons	6,450
Lubricating oil	1,000 barrels	323
Tin plate	1,000 lbs.	12,033
Tubular products	"	10,977
Refined copper	"	4,878
Typewriters	Number	10,607
Motor trucks	"	5,725
Passenger automobiles	"	2,959

* *Foreign Trade of the United States in 1938*, p. 104.

Some Elements in the Indian Situation. When the lifelong dream of Mohandas K. Gandhi for an independent India gradually took tangible form, the leaders of India turned to a consideration of many plans for internal development which involved international relations as well. With a population only 15 per cent literate and with a per capita income of $19.50 per year, the problem of developing the Indian economy is enormous even if questions of castes and religious differences are left out of the picture. One plan called for the expenditure of $30,000,000,000 during the next fifteen years. Another proposed that the government take over twenty basic industries of the country, as well as any others for which private funds were not available, and encourage the growth of private

TABLE 27

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM INDIA, 1938*

Commodity	Unit	Quantity
Goat and kid skins	1,000 pieces	9,711
Lamb, kid, sheep, and goat skin, undressed	" "	445
Edible nuts	1,000 lbs.	29,423
Tea	" "	12,173
Crude rubber	" "	4,805
Crude lac	" "	15,131
Shellac	" "	11,946
Kadaya and talka	" "	3,761
Drugs, herbs, roots	" "	5,483
Raw cotton	" "	24,346
Jute	Tons	45,437
Jute burlaps	Million lbs.	460
Jute bags	1,000 lbs.	42,770
Carpet wool	" "	14,920
Carpets and rugs	1,000 sq. yards	439
Mica	1,000 lbs.	8,280
Titanium	" "	451,115

* *Foreign Trade of the United States in 1938*, p. 105.

enterprise—goals not entirely consistent. Both plans overlooked the fact that newly established governments never run smoothly politically and therefore are never in a position to help economic development to any great degree.

These plans, however, seemingly pictured a united India and did not involve the two Indias which Great Britain finally announced in the late summer of 1947. Although technically under British control until June, 1948 (and possibly longer if internal strife and external uncertainty warrant), the two countries resulting from British action are the Union of India (Hindu) and Pakistan (Moslem).

The division of a geographical area into two parts necessarily carries with it the destruction of any semblance of a single economic system. As

analyzed in *World Report* (the weekly news magazine of world affairs),[7] the area given to the Union of India (Hindustan) contains a railroad mileage of 25,970 miles, as compared with 15,542 in Pakistan; 246,605 miles of highway, as compared with 49,863; and five major ports, as contrasted with two widely separated ports of Pakistan. From an industrial point of view, the Union is far richer than Pakistan, since it houses 380 of the 389 cotton mills, 156 of the 166 sugar mills, 77 of the 79 glassworks, and all of the jute mills, iron and steel works, and paper mills. The Union also has a considerably larger acreage devoted to the production of cotton, tea, rice, wheat, and sugar. Pakistan, however, leads in the production of jute, and by virtue of a smaller population is in a position to export food and cotton. The Union requires more food than it produces and uses her cotton domestically.

There are also some interesting questions of an economic nature, the answers to which hinge on sovereignty. For example, will the two countries become competitors, or will they seek to remain fairly unified economically in spite of political frontiers? Will they erect tariffs against each other? Will they employ all of the other weapons from the economic arsenal? Will they adopt different currency systems? Will their economic relationships ignore their religious and social distinctions? These questions will be answered in the future. But division has put a damper on the extreme nationalist and mercantilist views of some leaders who thought in terms of a united India and sought the hegemony of southeastern Asia.

AUSTRALIA

Early Tariff History. From the very earliest times, Australia granted preferential tariff treatment to Great Britain. From 1808 onward, the tariff consisted of a general levy of 5 per cent on all goods not of British manufacture. Except for minor changes, this system persisted until the discovery of gold in the middle of the century. When New South Wales and Victoria separated, there were specific rates imposed on spirits and tobacco and ad valorem rates on other imports. A general rate of 10 per cent applied to all countries except Britain against whose products only a tax of 2 per cent applied. In 1851, British preference was swept away. In 1852, the Dease Thompson Tariff was passed in New South Wales. The most important articles covered were spirits, wines, beer, tobacco, tea, coffee, and sugar. The tariff for Victoria in 1855 imposed rates on seven classes of goods and an export tax of 2*s.* 6*d.* per ounce on gold. The use of the tariff for revenue purposes prior to the gold discoveries began to give way to a protectionist policy. The free trader, James McCullough, succeeded in sponsoring successfully the last moderate tariff in 1866. This act reduced rates on tea and sugar and treated with moderation clothing,

[7] *World Report*, August 19, 1947, pp. 18–19.

textiles, boots, saddlery, and earthenware. New South Wales carried on a free-trade tradition during the seventies and eighties, while the colonies other than Victoria continued to emphasize revenue. In vain did the representatives at six intercolonial conferences held between 1863 and 1873 try to get rid of the barriers at their respective borders. It is said that the disagreement grew more bitter with each meeting. In 1873, Victoria adopted heavier duties. In 1877, rates reached as high a level as 45 per cent ad valorem.

Protection in Victoria was largely the accomplishment of one man who must have been a unique character. David Syme was the publisher of the newspaper, the *Melbourne Age*. An autocrat who brooked no disagreement, he dominated his country from 1864 until his death in 1908. His advocacy of protectionism was so uncompromising that importers ceased to advertise in his paper, and even the government withdrew its announcements. But nothing daunted, Syme reduced the price of his paper from sixpence to threepence, then to twopence, and finally to one pence. His circulation doubled and trebled, and advertisers had to make use of his columns to save themselves.

The Federation of Australia and the Tariff. In 1901, Australia ceased to be a number of colonies and became a federation. Her first tariff in 1902 was partly for revenue and partly for protection. In 1906, anti-dumping laws were passed. Revisions were made, usually upward after that date. By 1911 the rates were almost double those of 1902, and the free list was shorter. The federation restored a British preference of 5 per cent in 1907 and then raised the differential to 10 per cent after 1914.

Tariffs after World War I. The Australian tariff of 1921 made use of the intermediate tariff for the first time. Its purpose was to encourage bargaining. In 1928, changes were made on more than 130 items and the margin of British preference was increased on more than 50 others. In 1929, Australia tried an experiment in behalf of her tobacco growers. From 1915 to August, 1929, the rate on leaf tobacco and tobacco for cigarettes was fairly high—2*s.* per pound. Beginning with the latter date, the rate was raised to 2*s.* 8*d.* and then to 5*s.* 2*d.* in 1930. In addition, a primage duty of 2½ per cent was imposed. This was increased to 4 per cent on November 16, 1930, and to 10 per cent on July 11, 1931. Australian tobacco prices responded, and the domestic growers increased their acreage from 2,200 acres in 1928–29 to 20,200 acres in 1931–32. Fearing that this expansion was too rapid, the government reduced the rate on leaf tobacco from 5*s.* 2*d.* to 3*s.* on February 26, 1932. The market, which had relied on United States tobacco for 95 per cent of its supply, had now become almost self-sufficient. The Australian tariff of 1929 was one of the highest in the world, but during the depression it was to become prohibitive.

The tariff in 1931 on a number of items was 40 per cent higher than

that of 1929. The customs tariff of 1933 incorporated the acts passed between 1901 and 1930 into a single law but omitted the intermediate rates. However, these were restored in 1936 and became effective on January 1, 1937. The countries favored included most of the countries of the world with the exception of the United States, Japan, Norway, and some countries of minor importance.

The Paterson Plan. In 1926, Australian butter producers inaugurated a unique plan which came to be known as the "Paterson plan." Under it, the butter producers voluntarily assessed themselves on all the butter produced and paid the funds which they collected as a bounty to the exporters of butter. In this way the dairy industry received better prices at home, since the latter rose by the amount of the bounty. The plan revealed weaknesses, however. As prices rose, more butter was produced and the amount that had to be exported was greater. This resulted in a greater expenditure for bounties, which, in turn, cut into net gains. On occasion, then, it has been necessary to reduce the bounty. The advantage of the plan, nevertheless, lies in the fact that other countries cannot blame the Australian government for paying the bounty and bring retaliatory measures against her.

The Tariff since 1935. In 1935 the United Australian party, which was governing in a coalition with the Country party, declared for a tariff reform. No rate was to exceed what was "reasonable and adequate under existing conditions of exchange," and protection was to be limited to goods "economically manufactured in Australia." In addition, the interests of consumers and users of the products were to be kept in mind. As a result of studies by the Tariff Board, rates were reduced in both general and preferential columns on forty-nine items in the act. This became effective on June 25, 1937.[8] About seventeen items were subjected to higher rates. Reductions included those on aluminum ware, electric porcelain ware, fire extinguishers, gas meters, malleable iron castings, metal sashes and frames, and pneumatic tires and tubes. In 1938, rates were raised on lawn mowers, washing machines, refrigerators, electric motors, radio tubes, spring hinges, electric fans, and cartridges.

Effective September 15, 1939, various changes were made in the tariff as a result of recommendations by the Tariff Board. British preference margins were widened. A special war duty of 10 per cent of the combined ordinary and primage duties went into effect on May 3, 1940. It covered all dutiable imports except petroleum products.

Receipts from Customs. The Australian government obtained about one-third of its revenue during the period of the thirties from the tariff.

[8] The imposition of heavy duties on rayon and cotton piece goods caused a dispute with Japan and caused the latter to cease purchasing from Australia. Japan turned to South Africa for wool. South Africa, in turn, supplemented her supply by buying from Australia. Hence, the latter did not suffer too much from Japan's anger.

In the preceding decade the proportion was higher. It varied from 47 per cent in some years to 51 per cent for the year 1926–27.

Trade Restrictions. Much of the Australian policy toward imports and the desire for self-sufficiency can only be understood in terms of the fact that this country, the size of the United States but peopled with only 7,000,000 persons, is thousands of miles from the nearest source of manufactured goods. This presents a strong case for the development of the home market. The success of the policy of industrialization is shown by the fact that in 1913 Australia possessed 15,536 factories employing 337,101 persons, while in 1938 the figures were 26,395 factories and 559,160 persons.

The government has sought to encourage production by means of bounties and trade restrictions. Examples of the former are the Raw Cotton Bounty Act of 1934, which promised a basic payment of 4½*d.* per pound on all cotton grown in Australia and that of December 15, 1939, providing for the payment of a bounty to the manufacturers of automobile engines whose plants have an annual capacity of 8,000 engine units. A bounty of £30 per engine unit was assured on the first 20,000 units, £25 per unit on the second 20,000 units, and £20 per unit on the third 20,000 units. To obtain the full bounty, however, not less than 90 per cent of Australian materials must be utilized; otherwise, the bounty is to vary with the Australian material content. Another example is the recent long-term plan for the stabilization of the wheat industry. The government has undertaken to guarantee the grower 3*s.* 6*d.* a bushel free on rails and to ports on a total crop not exceeding 140,000,000 bushels in any one year. The first 2*d.* in excess of this price is to go to the grower, the next 2*d.* into a fund for guaranteeing the price, and the remainder is to be divided equally between fund and grower.

Examples of the latter, that is, trade restrictions, are found in the import license requirements. In 1937, for example, typewriter ribbons, all types of electric refrigerators, air-conditioning apparatus, outboard motors, and high- and low-tension wires were made subject to import license. In May, 1938, a great many items were removed from the list in force since 1936. This was in keeping with the promise of the Minister for Trade and Customs that the system inaugurated in 1936 would be gradually abandoned.

Australia and World War II. Conditions brought on by the war, which could not be foreseen, however, brought back the system of restrictions with greater force than ever before. On December 1, 1939, the government announced that the need for controlling foreign exchange with nonsterling countries compelled the imposition of licensing regulations on over 400 categories of goods coming from the nonsterling countries including Canada, Newfoundland, and Hong Kong. The goods were

divided into the classifications of (*a*) very important, (*b*) important, (*c*) less important, and (*d*) unimportant. The importation of goods called "unimportant" and coming from nonsterling countries was prohibited. "Unimportant" goods included spirituous and nonspirituous beverages, manufactured tobacco, food products, including fruits and vegetables, specified cotton textiles, woolen goods, wearing apparel, floor coverings, iron and steel and iron and steel products, agricultural implements, household and laborsaving equipment, specified telephone and radio equipment, specified electrical equipment, sporting guns, ammunition, fire sprinkler equipment, household novelties, oils, paints, varnishes, floor polishes, cement bricks and stones for buildings, specified drugs and chemicals, toilet preparations, specified forest products, sports goods, jewelry, leather, hides and skins, specified rubber products, paper products, bicycles and parts, specified motorcar equipment, musical instruments, rope and cordage, fireworks, and dental supplies. It is evident, of course, that the term "unimportant" is from the Australian point of view and that most of the items are manufactured within that country. Nevertheless, the items represented about 7 per cent of our exports to that country during the year ending June 30, 1939. In 1940, more items were added to this list—motorcycles, agricultural implements, wall paper, and crude and reclaimed rubber. Export control went into effect at the beginning of the war.

Another war measure took the form of a special committee in the Department of Supply and Development to supervise and control the purchase of all machine tools, both foreign and domestic. The government has also encouraged the production of commodities hitherto imported such as plastics, newsprint, watch movements, wallboard, rolled aluminum sheets, canvas, and so on. In guiding business against unwise expansion, nevertheless, control has been asserted over investments and the formation of new companies not representing wise uses of capital.

Under the Trading with the Enemy Act, trade with all enemy countries and enemy-occupied countries was prohibited. By November, 1940, these countries and regions were Germany, Austria, Czechoslovakia, Danzig, Poland, Denmark, Norway, the Netherlands, Luxemburg, Belgium, France, Algeria, French Morocco, Tunisia, and Italy. They represented, in the last year of peace, markets for 17 per cent of Australian merchandise and were the source of 8.6 per cent of her imports.

Australian Commercial Relations. The ties which bind the United Kingdom and Australia, as well as the tariff preference, explain the importance of Britain in Australian trade both as a source of supply and as a buyer of Australian goods. In Table 28 this relationship is shown for the years following 1926. Except for the years 1926–29, Britain has purchased 45 per cent or more of Australian exports and has sold to Australia more than 40 per cent of her imports in every year except 1930–31. The table

also shows the declining part France has played as a buyer and seller. Japan has played a relatively larger part as a buyer than as a seller. The United States has become a somewhat more important purchaser of goods in recent years and was the second most important supplier.

TABLE 28

AUSTRALIAN TRADE RELATIONS, 1926–39

Year	Exports Percentage to—				Imports Percentage from—			
	U.S.	U.K.	Fr.	Jap.	U.S.	U.K.	Fr.	Jap.
1926–27	13.0	33.7	12.1	7.3	25.1	41.2	2.9	3.1
1927–28	6 3	37.6	10.7	9.0	23.7	42.6	2.6	2.9
1928–29	3.9	38.5	10.5	8.1	24.6	40.0	2.6	3.3
1929–30	4.1	53.7	8.1	5.3	23.1	41.3	2.3	3.2
1930–31	2.7	50.2	6.7	9.5	18.7	36.6	2.5	3.9
1931–32	2.1	49.5	4.8	12.2	16.4	40.6	2.7	5.6
1932–33	1.4	47.6	6.2	11.8	14 6	42.5	2.2	6.4
1933–34	2 2	47.4	5.8	12.3	13.6	43.4	1.7	6.3
1934–35	2 7	52.3	4.6	11.8	15.7	43.6	1.2	6.6
1935–36	4.6	49.2	5.0	14.5	17.1	41.6	1.0	6.1
1936–37	7.4	49.5	5.4	6.6	14.7	43.7	1.0	4.5
1937–38	2 4	51.9	6.6	4.1	16.2	42.3	.8	4.9
1938–39	2.9	54.4	7.6	3.9	15.0	41.0	1.0	4.2

Tables 29 and 30 show respectively the types of exports from this country to Australia and the imports from Australia to the United States. Ex-

TABLE 29

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO AUSTRALIA, 1938–40

Commodity	Unit	Quantity		
		1938	1939	1940
Unmanufactured tobacco	1,000 lbs.	20,313	22,292	11,387
Raw cotton	Bales	11,175	9,272	21,449
Boards, planks, scantlings, soft woods	M board feet	11,497	14,253	6,854
Motor fuel and gasoline	1,000 barrels	1,993	737	929
Kerosene	" "	169	108	154
Lubricating oil	" "	415	600	627
Lubricating greases	" "	5,643	5,963	4,227
Petroleum asphalt	Long tons	29,027	29,566	29,248
Crude sulphur	" "	108,465	109,341	78,766
Iron plates, sheets, skelp	1,000 lbs.	62,125	14,279	8,491
Black steel sheets	" "	39,784	13,319	6,644
Aluminum plates	" "	40	292	2,252
Insulated copper wire and cable	" "	172	174	1,939
Accounting and calculating machines	Number	2,057	1,848	1,597
Track-laying tractors	"	1,437	739	518
Wheel tractors	"	4,114	1,676	1,491
Motor trucks and busses	"	4,962	3,553	2,770
Passenger cars	"	16,423	11,683	5,162
Planes	"	11	22	92
Carbon black	1,000 lbs.	6,953	9,666	7,265
Motion picture films	1,000 lin. ft.	11,553	11,725	15,393

cept for unmanufactured tobacco and raw cotton, most of our exports prior to World War II were of the semimanufactured or manufactured type. Australia's exports to us were mostly the by-products of animal husbandry.

TABLE 30

Some of the Principal United States Imports from Australia, 1938–40

Commodity	Unit	Quantity		
		1938	1939	1940
Sausage casings	1,000 lbs.	1,727	1,566	1,867
Sheep and lamb hides	" "	1,041	5,946	5,719
Kangaroo and wallaby hides	" "	1,270	1,055	1,045
Mother of pearl, unmanufactured	" "	1,902	4,675	4,745
Raw wool	" "	3,947	16,893	20,988
Tin bars	" "	291	562	1,593

Australia and the Postwar Market. The effect of World War II, particularly Lend-Lease and the intermingling of the people of the two countries, has been to open up new trade possibilities between the United States and Australia which will perhaps modify some of the commercial policies hitherto followed by Australia. Daniel and Belle in their informative volume, *Australia: The New Customer*, paint this picture for us:

Shop windows and advertising reveal evidence of the impact of the United States on Australian life. Famous trade names and familiar brands—such as Goodyear, Texaco, Buick, Ford, Chevrolet, Kayser, Sal Hepatica, Pepsodent, Kodak, Palmolive—greet the visitor. Stores are equipped with National cash registers; offices, with Royal, Underwood, or Remington typewriters. Drug store windows and shelves are well stocked with American goods. American moving pictures and recorded radio programs have for a long time predominated in the entertainment field. Such typically American foods as ice cream and hamburgers, and American institutions like the soda fountain and the roadside refreshment stand, are well known to Australians. Moreover, the American armed forces (through descriptions of their homes in the United States and through their post exchanges) have acted as unofficial salesmen and advertisers for American products . . . .

Before the war, Australians knew the United States and Americans too often only through the distortions and caricatures of Hollywood. "GI Joes" in hundreds of thousands of "personal appearances" have given a truer basis for appraisal of American life.[9]

SUMMARY

The Japanese tariff system dates from 1911, when a law was passed that remained basic until 1926. In that year rates were raised on practically all

[9] Daniel, Howard, and Belle, Minnie, *Australia: The New Customer* (New York: Ronald Press Co., 1946), pp. 7–8.

manufactured products. The tariff became an instrument for exchange balancing beginning in 1934, when the government began to assert more and more control over industry and commerce. Its goal was to establish large industrial units in Japan. Japan's membership in the Axis and her subsequent defeat may be viewed as having changed sharply her future history.

For a long time, China lacked tariff autonomy and employed a revenue rate of about 5 per cent ad valorem based on treaty. She also employed an export tariff. Subsequently and fairly recently, she began raising rates and by 1932 had import duties ranging from 7½ to 60 per cent ad valorem. They climbed even higher in 1933 and 1934. A revised export tariff went into effect in 1935.

India, although not of dominion status, had a certain amount of tariff autonomy. Her tariff was a revenue producer up to the time of World War I. After that the protectionist movement asserted itself; and by the time of the Ottawa Conference, India was definitely a protectionist country. Her effective rates by 1939 were a little over 30 per cent. Her plans for independence colored her activities during the closing years of the war and heralded the beginning of extreme nationalism which may be expected to include the use of high protectionism.

Early Australian tariffs were free trade in character. Australia became a federation in 1901. Her first federal tariff was partly for revenue and partly for protectionist. Revisions upward, however, had almost doubled rates by 1911. In 1921, Australia began to use her tariff rates for bargaining. Although one of the highest tariffs in the world in 1929, the Australian tariff became prohibitive during the depression of the thirties. Beginning in 1937, tariff reform brought about a lowering of rates. The tariff has yielded as high as 51 per cent of Australian revenue during the twenties. Its yield has decreased in importance in recent years.

QUESTIONS FOR DISCUSSION

1. Suggest the course Japanese trade might have taken had the Western world left that country alone during the centuries.
2. Why did Japan with her low wages find it necessary to protect her industries against the exports of highly paid labor?
3. What commercial and industrial future do you picture for Japan?
4. Suggest the course Chinese trade might have followed had the Western world left her alone during the centuries.
5. What commercial and industrial future do you picture for China (*a*) assuming that her political conditions remain unchanged; (*b*) assuming that her political conditions become stable?
6. What effects will an extreme nationalistic policy in India have on her commerce and industry?

7. In your opinion, can India "afford" to pursue a policy of high protection?
8. Trace the rise of protectionism in Australia.
9. What effects has World War II had on Australian economy?
10. What effects of a permanent nature can you see in Australian–United States commercial relationships?

PART IV

THE TARIFF AND COMMERCIAL POLICIES IN THE WESTERN HEMISPHERE

CHAPTER XXI

INTER-AMERICAN RELATIONSHIPS: POLITICAL AND ECONOMIC

Our Interest in Latin America. The first World War and its aftermath was responsible for a wave of popular interest in the economic possibilities offered by the countries of Latin America. This manifested itself unhappily in a clumsy attempt to "capture the South American market" by methods familiar enough to this country but inept, irritating, and at times insulting to the Latin-Americans. We seemed to believe at that time that the key to success lay in a hastily learned Spanish in our high schools—and little else. In so doing we ignored the fact that Brazil, the largest of the markets, used the Portuguese language, that the leading European countries had been in the Latin-American markets for many years as buyers, sellers, and investors, and that an accumulation of grievances against us was not likely to make this southern market capitulate.

Our Interest after 1933. All of these things, and many more, we learned during those years, and yet we did little about them constructively until about 1933, when the depths of depression and the subsequent rise of totalitarian states once again turned our eyes southward. Prior to this time, except for occasional good-will tours of businessmen or a semi-official one like that of Herbert Hoover as President-elect in 1928–29, our relations were left untouched. But international circumstances forced us to take more than an economic interest. Our interest became political as well. We began to see the need for hemispheric solidarity.

Our Ignorance of Latin America. Our knowledge of Latin America is poor, and this has contributed to a lack of understanding. We have, for example, few, if any, courses in our high schools and colleges dealing with the economic history or development of Latin America. We know few of their inventors or scientists. Our books on banking and similar topics make no mention of Latin America. As one writer has remarked:

At age nine, or thereabouts, the average American knows more about the other continent in the Western Hemisphere than at any other time in his life. That is when he gets toward the end of his tuition in geography and learns that South America is almost as big as North America; that Brazil—it comes as a shock—is bigger than the U.S.; that there are jungles and pampas and the Andes and the Amazon—all big; that there are wheat, cotton, beef, and coffee exports—also big; that the city of Quito is on the equator and the city of Montevideo

MAP I

LATIN-AMERICAN RESOURCES

on the Rio de la Plata; that there are a considerable number of Indians, but not the satisfactory 100 per cent American kind who gave General Custer an opportunity of making a last stand and who bestow feather headdresses on Presidents in the newsreels.

From his geography the average American gets about as distinct an impression of South America as an old blotter gets from a damp check, but at that

it is clearer than the impression he has a few decades later. As the years pass, the continent recedes and becomes fuzzier and fuzzier until finally in most men's minds it is nothing but the biggest chunk of all that vague unregenerate territory below the Rio Grande.[1]

But there is this much that can be said in behalf of our ignorance. It is not flavored with anti-Latin-American propaganda. It is a clumsy but good-natured ignorance—except, perhaps, in the midst of critical times. The same cannot be said of the ignorance which the Latin-Americans show for this country. That ignorance has been too frequently colored by skilled propaganda of the weirdest, yet most telling, sort. Few of us are aware of the happenings for which we are held responsible, how our good-will tours are interpreted as boastful and threatening gestures. Few of us realize that everything from crop failures to revolutions have been placed at the door of the "Colossus of the North"! Few realize how low is our morality and how lightly we hold the institution of marriage—telling points in these Catholic countries!

In 1915, for example, Rufino Blanco-Fombona, the famous Venezuelan writer, poet, critic, novelist, editor, essayist, and historian, whose contact with the United States consisted of two visits during his youth, informed his readers:

The most venal press in the world is that of the Yankees. The most corrupt courts in the world are those of the Yankees. The most dishonest business in the world is that of the Yankees. The most manipulated elections in the world, those of the Yankees. There is equality, yes, there is equality: the equality of slavery to the policeman, who is the tyrant of the North American cities; the liberty to hunt negroes with sticks, stones, and rifles; the liberties to treat these citizens of the United States, these men whose lives are guaranteed by the Constitution of the Model Republic, as wild beasts who will dispute with white men the possession of the earth.[2]

It is not difficult to picture the effect of such statements on the Latin mind or the ill will fomented by them among the Negro populations of those countries or, again, the contempt for us engendered by such statements by a journalist of British birth, appearing in *La Prensa*, the great newspaper of Buenos Aires: "The United States has for some years back arrived at a state of immorality . . . . which has not been surpassed in the history of the modern world."[3]

Part of the reason for the revelation of these secrets, which we like to

[1] Taken from an introductory statement, "To South America and Back," accompanying reprints of seven articles on South America appearing in *Fortune* magazine beginning with the issue of December, 1937.

[2] Quoted in Haring, C. H., *South America Looks at the United States* (New York: Macmillan Co., 1928), p. 157.

[3] *Ibid.*, p. 138 n. See Rippy, J. F., "Yankeephobia in Hispanic America," *Journal of International Relations*, Vol. XII, pp. 360 ff.

keep to ourselves, and for the misinformation of years back is explained by the fact that, until about 1916, "virtually all the foreign news printed in the southern continent came through European channels, even news about the United States, and it was necessarily colored by the political and economic prepossessions of European governments and peoples."[4]

Our newspaper coverage of Latin America, in turn, did little to clarify this situation. Few people realize, for example, that between 1929 and 1933, revolutions occasioned changes in government in Mexico, Bolivia, Peru, Argentina, Brazil, Panama, Chile, Paraguay, El Salvador, Nicaragua, and Cuba. Referring to this same period, *Fortune Magazine* carries this statement about newspapers:

The only New York paper to carry a regular Latin-American classification in its daily index was the *Herald Tribune*, which instituted the style in 1928 and dropped it in 1933. During the same years the New York *Times* enlarged its South American coverage, publishing in the process the most memorable story in the history of inter-American journalistic relations. Noting from the brief cable that the Bovril Co. had purchased a prize Argentine critter named Esther Bletchley Challenge III, the *Times* rewrite staff industriously composed a pen picture of Esther's cowish grace and noble udders—a pen picture which suffered from one unforgettable imperfection: Esther was the most famous bull in Argentina. But such moments of pure journalistic inspiration were few. The only sizable paper in the United States, aside from the ubiquitous *Christian Science Monitor*, to keep its readers well informed about South America year in and year out was the Los Angeles *Times*, whose publisher hoped to live to see the proposed Pan-American highway end at Hollywood. Aside from the *Times* there was a southward twist to the Miami *Herald*, a South American shipping interest in the New Orleans *Item-Tribune*, and as much South American news on the commercial pages of the newspapers of Boston, Detroit, and Chicago as bore upon hides, automobiles, and meat packing respectively.[5]

Nicholas Roosevelt, in his *Wanted: Good Neighbors*, points out:

Latin America is not, and must not be considered as a unit. Brazil is as different from Costa Rica as Italy is from Bulgaria. Argentina and Mexico have nothing in common except the Spanish language. Despite the fact that, with the exception of Brazil and Haiti, the Latin American countries were once Spanish colonies, local variations are great. Some, like Mexico, Peru, Bolivia, and Paraguay, have much Indian blood. Others, like the Argentine and Uruguay, have scarcely any Indian strain. In the island republics, and the lowlands bordering the Caribbean Sea, the admixture of African blood is marked. These racial factors have served to differentiate the various countries, and to give to each a distinct and separate character.

---

[4] Haring, *op. cit.*, p. 15.
[5] *Fortune* magazine, December, 1937.

The Good-Neighbor Policy. In March of 1933, a new note—or perhaps a renewed note—of friendliness was sounded in the Inaugural Address of President Franklin Roosevelt: "In the field of world policy," he said, "I would dedicate this nation to the policy of the good neighbor—the neighbor who resolutely respects himself and because he does so, respects the rights of others—the neighbor who respects his obligations, respects the sanctity of his agreements in and with a world of neighbors."

This enunciation, perfectly timed and psychologically brilliant, has had a remarkable effect and may someday be looked upon as a new "Monroe Doctrine." Certain it is that within five years it had become the basis for Pan-American understanding. In the Eighth Pan-American Conference, held at Lima, Peru in 1938, and in the conference which followed at Havana in 1940 the twenty-one "republics" were able to declare a solidarity of this hemisphere against all external threats or actual aggression by European or Asiatic powers, as well as a determination for better trade relations among the countries of this hemisphere. Nothing like this had occurred during World War I, and, as we shall see presently, these declarations were not mere words. They resulted in a number of very tangible acts, such as the withdrawal of American marines, the settlement of boundary disputes, the settlement of a war, and the signing of various bilateral and multilateral treaties and agreements.

The Monroe Doctrine. Our concern in Latin America in the sense of having common interests that might be called "American," as opposed to the European or Asiatic interests, is not new. Similarly, our economic interests in the south have had a history that antedates the first World War. For many years after the American Revolution, the European monarchs looked with grave misgivings on the republican form of government and sought to prevent its spread to other countries. Under the leadership of the Holy Alliance and Russia, several conferences were held. In fact, the Verona Conference in 1822 was seriously concerned with the proposition of helping Spain recover her colonies, most of which had revolted and sought some form of republican government.

Whatever success the Holy Alliance might have had in such an attempt must remain conjectural because the opportunity was never afforded. On December 2, 1823, President James Monroe delivered his famous Message to Congress which has since become so familiar to students of American history. There were to be no more European colonies established on this continent. There was to be no extension of the European political system to any portion of it. There was to be no interposition by European powers in the affairs of South America.

Thus, Latin America was allowed to go its way although never showing any enthusiasm for the breathing space which the doctrine gave it initially or for the comparative freedom from the burden of armaments in the suc-

ceeding years. On the contrary, the doctrine became a symbol of the strong neighbor of the north and a source of irritation and misunderstanding until very recently. This was due, in part, to the fact that the Monroe Doctrine was not an act of Congress, which therefore would be more or less definite, but was what any President of the United States wanted to make of it.

President Cleveland's Secretary of State, Richard Olney, saw fit in the British–Venezuelan dispute to picture the United States as "virtually paramount" in the Western Hemisphere and as a country whose "fiat was law" in matters which concerned her—language which caused even Britain to reply: "No statesman, however eminent, and no nation however powerful, are competent to insert into the code of international law a novel principle which was never recognized before, and which has never been accepted by the government of any country."[6]

When Theodore Roosevelt was President, Latin America was informed by means of a Message to Congress (December 6, 1904):

> Any country whose people conduct themselves well can count upon our hearty friendship. If a nation shows that it knows how to act with reasonable efficiency and decency in social and political matters, if it keeps order and pays its obligations, it need fear no interference from the United States. Chronic wrong-doing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation and, in the western hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrong-doing or impotence, to the exercise of an international police power."

On the other hand, a statement by President Taft, torn out of its context, gave cause for concern: ". . . . active intervention to secure for our merchandise and our capitalists opportunity for profitable investment." Much more comforting was the viewpoint of President Wilson, who in 1915, declared that this country had no thought of "political suzerainty or selfish control," that "all the governments of America stand so far as we are concerned upon a footing of genuine equality and unquestioned independence," that "the states of America are not hostile rivals but co-operating friends," and that "in a very true and deep sense" they constitute "a unit in the world affairs, spiritual partners, standing together, quick with common sympathies and common ideals." He suggested, in short, that the American republics should co-operate "in guaranteeing to each other absolute political independence and territorial integrity."[7]

To what extent this vision of a great statesman can now be made real

[6] Shippee, Lester B., *Recent American History* (New York: Macmillan Co., 1924), p. 232.

[7] *Congressional Record,* Vol. LIII, pp. 95–96.

and to what extent the Monroe Doctrine can now be made into a joint-hemispheric responsibility instead of a unilateral declaration remains to be seen—although such reactions as are visible at this writing point to success. One phase, and a most troublesome one, received clarification the first year President Franklin Roosevelt was in office. In a speech before the Woodrow Wilson Foundation, he said:

> The maintenance of constitutional government in other nations is not, after all, a sacred obligation devolving upon the United States alone. The maintenance of law and the orderly processes of government in this hemisphere is the concern of each individual nation within its own borders first of all. It is only if and when the failure of orderly processes affects the other nations of the continent that it becomes their concern; and the point to stress is that in such an event it becomes the just concern of the whole continent in which we are all neighbors.[8]

To what extent, moreover, the doctrine will be subject to test at the present time remains to be seen. There is propaganda to make it hateful, but there is propaganda to bolster it as well. An interesting example of the latter was the alleged promise by the totalitarian powers to Spain that she would once again win back her Latin-American "colonies."[9]

It is significant that the Havana Conference, which met in July, 1940, was able to make a forceful statement regarding the status of territories in this hemisphere that belonged to European powers involved in the war and, therefore, were in danger of being transferred to other powers contrary to the Monroe Doctrine. The delegates determined: "That the American republics, as an international community which acts integrally and forcefully, supporting itself on political and juridical principles which have been applied for more than a century, have the incontestable right, in order to preserve their unity and security, to take under their administration said regions and to deliberate over their destinies in accordance with their respective degrees of political and economic development; . . . ."

The Pan-American Idea. The Pan-American idea of building a closer relationship between American states is associated with Simon Bolivar, whose name has become synonymous with South American independence. Visualizing a state which would ultimately include all the American nations, he called a conference in 1826 in Panama. Six states were represented, the delegates of a seventh—the United States—having failed to arrive. The conference did succeed in emphasizing the promotion of peace and union among the American nations. The benefits of a closer

[8] December 28, 1933.

[9] Our refusal to join the League of Nations did not help our cause in Latin America. The nations which became members included twenty Latin American republics, although as time went on, ten withdrew.

understanding also were apparent to such statesmen as John Quincy Adams and Henry Clay. Other conferences convened in 1831, 1847, 1856, 1864, and 1888. The thought behind all of them was the closer union of the states represented and the championship of mediation and arbitration to settle disputes. But they were not so much Pan-American in make-up as they were South American, and their interest in enjoying safety from European powers was not unmixed with a desire to keep the United States from interfering as well.[10]

President Arthur and Reciprocity. In 1882 President Arthur sought closer trade relations with Latin America through reciprocal trade agreements. He negotiated his first with Mexico in 1883, and, had it been approved, it would have meant the remission of a long list of articles affecting both countries thereby introducing a considerable degree of free trade. The Mexican tariff at this time was extremely high. Strangely enough, this treaty won the ratification of the Senate but failed to go into effect because of the House's failure to pass the legislation necessary for its operation within the allotted period. Hence, it expired on March 20, 1887. The treaty with the Dominican Republic also failed to go into effect because it was withdrawn from the Senate by President Arthur's successor, Mr. Cleveland, and was never submitted again to the Senate.

The United States Commission and Its Report. President Arthur also appointed a commission under the act of Congress of July 7, 1884, "to ascertain and report upon the best modes of securing more intimate international and commercial relations between the United States and the several countries of Central and South America." This commission held a series of hearings in New York, Philadelphia, Baltimore, New Orleans, San Francisco, and Boston previous to its tour of Latin America. The reports finally submitted, although now over sixty-three years old, still have a modern ring—the findings differ in degree but not in kind from the recent investigation by our Tariff Commission.

The commission pointed out that the countries investigated were so largely dependent on the tariff for their revenues, which were otherwise meager, that they would be but little inclined to come to closer understandings with the United States unless in return for generous concessions.

The report went on to say:

> In any convention we, on our part, must admit wool or sugar free of duty or at greatly reduced rates. Central America, including Mexico, can produce it at home and in large quantities. Peru, Chile, and La Plata Valley can supply us with wool at far less cost than it can be grown either in our new or old settlements. In any reciprocity treaty we must take one or the other of these articles as a basis of the concessions we are willing to grant. They are the peculiar

[10] Dietrich, Ethel B., *World Trade* (New York: Henry Holt & Co., 1939), p. 279.

products of those countries which they look to for revenue and which we do not admit free of duty. And they are precisely the two products we felt we had no authority to even consider in our negotiations with these people. Had one been at liberty to bring on a discussion as to them, we have no doubt the result in every case, except perhaps Chile, would have been a very favorable reciprocity treaty.

The commission recommended an international American conference to be held in Washington to discuss reciprocity and other trade relations and declared: "The States of Central and South America stand ready to respond heartily to our call for such a convention."

Our Secretary of State, Frederick T. Frelinghuysen, sounded a note of friendliness and the need for a closer relationship between the Americas in connection with the report:

At no time since the foundation of this government has there been a deeper conviction of the advisability of knitting closely the relations of the United States to the large family of independent nations which has grown up on the American continent. The peoples of the south, like ourselves, aspired to self-government and successfully established their claim thereto. The similarity of their forms of government to our own, and the fact that they, as we, possess on this hemisphere territories rich in resources, the development of which is sought rather than foreign alliances, conquests, or acquisitions, have naturally created a friendship between the Republic of the United States and the Republics of Central and South America, which, while not incompatible with good feeling for other nations, does not favor foreign political influences or interference. An identity of material and political interests between the American Republics should be fostered and advanced by the influence and action of the United States, to whom, as the senior of this family of nations, rich in their own development and constant in upholding the forms of popular government, the rest may naturally look for example and for disinterested counsel and aid.

Report of the Committee on Customs Union. A conference of American states had been called by James G. Blaine for 1882 "for the purpose of considering and discussing the methods of preventing war between the nations of America." But circumstances both at home and abroad led to the invitations being recalled. In 1888, Congress passed the necessary legislation, and President Cleveland allowed it to become a law without his signature. Invitations were issued, and all of the independent American states except the Dominican Republic sent representatives in 1889. One of the committees of the conference dealt with the proposal of a customs union. The salient feature of the report is printed below:

Although it is not easy, in the opinion of the committee, to reach at once unrestricted reciprocity, that end might be obtained gradually and partially. The first and most efficient step in that direction is the negotiation of partial

reciprocity treaties among the American nations, whereby each may agree to remove or diminish their respective import duties on some of the natural or manufactured products of one or more of the other nations in exchange for similar and equivalent advantages, as, if the mutual concessions were not equivalent, the treaties would soon become odious, and could not last but for a limited time, and would discredit the system. If, after this had been tried for some reasonable time a good result should follow, as it is to be expected, the number of articles on the free list might be enlarged in each case, from time to time, until they attain, through the development of the natural elements of wealth, other sources of revenue or an increase of the existing ones, which would allow the contracting nations to reach unrestricted reciprocity or a free trade among some or all of the American nations.[11]

Latin-American Attitude toward United States Reciprocity. Mr. Blaine was able to report that fifteen of the seventeen republics had indicated their desire to enter reciprocal agreements with the United States and that the other two had expressed a willingness if assurance were forthcoming that their advances would be favorably received. These two, Chile and Argentina, were probably lukewarm because of our tariffs on wool and hides. President Benjamin Harrison stated in a Message to Congress on June 19, 1890:

> It has been so often and so persistently stated that our tariff laws offered an insurmountable barrier to a large exchange of products with the Latin American nations, that I deem it proper to call especial attention to the fact that more than 87% of the products of those nations sent to our ports are now admitted free. If sugar is placed upon the free list, practically every important article exported from those States will be given untaxed access to our markets, except wool.[12]

The McKinley Tariff and Reciprocity. The McKinley Tariff provided for the free entry of sugar, molasses, tea, coffee, and hides but authorized the President to raise the rates to 3 cents per pound on coffee, 10 cents per on tea, 1½ cents per pound on hides, and a little over 1 cent per pound on raw sugar coming from countries that imposed rates on our exports which he deemed unjust. With this as an incentive, we were able to negotiate reciprocal agreements with Brazil, Guatemala, El Salvador, Nicaragua, the Dominican Republic, and Honduras, as well as with Germany and Austria. Agreements were also made with Spain in behalf of Cuba and Puerto Rico and with Great Britain for Jamaica, Trinidad, Barbados, and British Guiana. In fact, the only Latin-American countries producing the products eligible for reciprocity that failed to make an agree-

---

[11] Senate Exec. Document, No. 157 (51st Cong., 1st sess.) (Washington, D.C.: U.S. Government Printing Office, 1890), p. 11.

[12] *Ibid.*

ment and were subject to the retaliation rates were Venezuela, Columbia, and Haiti.

Other Meetings of the Pan-American Conference. The Second Pan-American Conference was held in Mexico in 1901. The commercial treaty of a reciprocal nature was endorsed "as a broad foundation for the encouragement of the sentiments of union between the Republics of the Americas." Subsequent meetings were held in Rio de Janeiro in 1906; Buenos Aires, 1910 (at which time the name "Pan American Union" was coined); Santiago, 1923; Havana, 1928; Montevideo, 1933; and Lima, 1938. A consultative reunion was convened at Panama in 1939, and a second meeting met at Havana in 1940. In addition, financial, scientific, and commercial conferences of representatives of the republics have been held in the intervening years—1908, 1911, 1915, 1919, 1920, 1927, 1931, 1935, and so on.

Special mention must be made of the conclusions reached by the conferences in 1933 and 1940. This is so because of their far-reaching future implications. In 1933, the delegates agreed that their governments should seek to reduce the existing high tariff barriers through the negotiation of bilateral reciprocity treaties and that similar attempts should be made by all the other governments of the world through bilateral and multilateral agreements. In such agreements there were to be incorporated the most-favored-nation clause. They also asked for a revival and revision of the convention of 1927, or the negotiation of a new one, looking toward the abolition of import and export prohibitions and restrictions. The conference recognized that certain exclusive agreements between neighboring and contiguous American states might be worth while. It also suggested that nations should not invoke the most-favored-nation clause unless they were also prepared to fulfill the obligations such conventions involved.

Text of Economic Accord. The economic accord reached by the Havana Conference in July, 1940, is printed below:

The second meeting of Ministers of State of the American republics, considering:

That in the first consultative meeting held in Panama it was decided to declare that it was convenient and necessary then, more than ever, taking into consideration prevailing circumstances, to establish among those republics a sincere and strict cooperation to protect their economic and financial institutions, maintain their fiscal stability, assure the stability of their monetary systems, to promote and develop their industries, intensify their agriculture and develop their commerce;

That in order to reach the objectives of the preceding paragraph it was agreed to create an inter-American economic and financial consultative committee in Washington;

That the present war has accentuated disorganization of international commerce and loss of certain markets for certain American products;

That the existence of surplus products whose exportation is essential for the economic life of the countries of America is an affair of considerable economic, social and financial importance which concerns in general the mass of people, especially in those sectors which intervene in production and circulation of wealth of each country and, finally, for the governments of all the continent;

That it is to be foreseen that these difficulties will continue as long as the war lasts and that some of them or other new ones will exist after the cessation of hostilities;

That it is of great importance to orientate the economic development of the American nations, diversifying their production and increasing, at the same time, their capacity for consumption;

Resolves:

1. To make the following declaration:
   A. That the American nations maintain their adhesion to liberal principles of international commerce with peaceful aims, based on equality of treatment and just and equitable procedures in interchange.
   B. That it is the purpose of the American nations to apply these principles in their mutual relations as widely as actual circumstances permit.
   C. That the American nations should prepare themselves to re-establish their commerce with all the word in accord with these principles as soon as non-American countries are disposed to do the same.
   D. That meanwhile the American nations should do that which is in their power to fortify their economy, to augment their commerce and economic relations among each other, to project and apply adequate methods to solve difficulties, disadvantages and dangers that derive from the existing perturbation and dislocation in current conditions.
   E. That the American nations consider it necessary to maintain their normal economic links existing among themselves in order to assure conservation or betterment of the position acquired among their respective markets.
2. To amplify and intensify the activities of the inter-American economic and financial consultative committee so that this organism may continue consultations among the American Republics in relation to economic and commercial matters and adjustments, especially contemplating the immediate situations which it is necessary to confront as a result of constriction of important farm markets and exchanges operated in this respect.

   With the object of solving special problems, subcommittees composed of representatives of the interested countries may be constituted in those places thought to be most suited to their better functioning.
3. Especially to charge said committee in the shortest possible time to proceed to:
   A. Cooperate with each country on this continent in a study of the possible measures for the increase of internal consumption of its own export surpluses of those fundamental products of the economic life of the same.

B. Propose to the American nations immediate measures and adjustments based on mutual benefit which tend to increase the interchange among the same, avoiding that with these the interests of respective producers shall be hurt and having as an objective the amplification of markets for such products and the augmentation of their consumption.

C. Create instruments of inter-American cooperation for warehousing, financing and transitory disposition of the surpluses of said products, as well as for their orderly and systematic distribution and sale, taking into account normal conditions of production and distribution of these products.

D. Propose the celebration of agreements concerning said products, with the aim to assure, as much for the producers as for consumers, equitable conditions of interchange.

E. Recommend methods to raise the level of life of the peoples of America including measures for public health and good nutrition.

F. Establish appropriate organisms for the distribution of a part of the surplus of any of said products as a humanitarian measure and social aid.

G. Consider, while these plans and recourses are being developed, the establishment of a broader system of inter-American cooperation in matters relating to measures of credit and other aids which might be immediately necessary in economic, financial and monetary matters and in foreign exchange.

4. Support Resolution XIII of the Inter-American Economic Financial Consultative Committee and recommend for the promotion of the economic development of the American nations under the terms of said resolution, that each one of them, by self-initiative, establish in consonance with the program of the Inter-American Development Commission enterprises of government or private capital coming from two or more republics in this hemisphere.

   These enterprises may direct themselves directly to the Inter-American Bank or to other official or private credit institutions, recommending that the bank referred to shall grant the most favorable consideration to the possibility of lending them financial aid.[13]

Recent Inter-American Agreements. Numerous other conferences and agreements both bilateral and multilateral between Latin-American republics, designed to promote better understanding, have been entered into in recent years. Some have to do with tariff and trade relations, some with Pan-American banking, some with coffee and commodity controls.

A Recent Agreement between Argentina and Brazil. On October 6, 1940, the Ministers of Finance of Argentina and Brazil signed an agreement at Rio de Janeiro intended to reduce friction between the countries and to facilitate trade.[14] The countries would undertake:

---

[13] *New York Times*, July 30, 1940.

[14] *Foreign Commerce Monthly*, October 19, 1940.

1. To begin as soon as possible the production of articles not now manufactured in either country under a reciprocal guaranty that for ten years the trade in these articles shall not be subjected to protective import duties.
2. To accord the same treatment to commodities of minor importance now produced in one of the countries and subject to protective rates. Articles of greater importance would enjoy a similar treatment except that the application would be by such gradual steps as not to disrupt the national economy.
3. To set up a uniform system whereby accurate records could be kept of their respective trade balances with each other so that periodically the country having an export balance would take steps to remedy that situation, preferably through measures calculated to increase its imports rather than to curtail its exports.
4. To eliminate, over a period of three years, the milling and mixing restrictions against the coffee and mate of Brazil and the wheat flour of Argentina and to reduce similar controls.
5. To purchase the surplus non-competitive products of each other through the extension by each to the other of credits up to 50,000,000 Argentine paper pesos—such products to be stored in either country if necessary but not to be re-exported.
6. To arrange an understanding between their central banks for facilitating payments between the two countries and the prompt liquidation of exchange balances.
7. To inaugurate similar agreements with other American Republics to facilitate trade, improve the economic situation, and strengthen the solidarity of the nations of this continent.

A Proposal by El Salvador. Early in 1941 the Congress of El Salvador took under consideration a government bill granting free admission to goods originating in any of the South American republics, Cuba, Haiti, the Dominican Republic, or Panama. The proposal looks for an improvement in the trade of El Salvador and Argentina in particular but also visualizes a closer trade relationship among Pan-American countries and the latent possibility of other states following suit.

The River Plate Region Economic Conference. On February 7, 1941, delegates of Argentina, Bolivia, Brazil, Paraguay, and Uruguay signed an act which incorporated twenty-six agreements and resolutions voted by the River Plate Economic Conference. The ultimate aim of the understanding is to bring about a customs union among the republics through a series of treaties between neighboring nations at first. It is expected that multilateral agreements will follow in the wake of bilateral ones. Economic recovery is to be sought through:

1. Renunciation for ten years of the most-favored-nation treatment
2. The establishment of free zones in the river ports
3. Free transit for exports, imports, and immigrants

4. Reciprocal preferential treatment for raw materials and manufactured goods produced by the five powers
5. Mutual financing of trade
6. Abolition of tariffs on perishable goods
7. Creation of new banking facilities and foreign exchange stabilization funds
8. Creation of new transportation facilities.

Planning a Decade Ahead. At the same time negotiations between Chile, Brazil, Peru, Uruguay, and Argentina were moving forward in 1941 to plan their economies over the next decade in such a way as to avoid conflicts in their international trade. Couched in terms of the fondest hopes of a dreamer for free trade, these negotiations look forward to the production by each nation of those specialties for which it is best suited. This would enable each to reap the benefit of mass production and yet be certain that it would meet no competition from the other states. Thus, friction would be reduced and business would be established on a firmer basis.

The Inter-American Bank Project. The Mexican delegation at the Guatemala Conference of Finance Ministers in 1939 brought forward once again a proposal that had been considered off and on for a half-century, namely, the establishment of an inter-American bank. During the next year, a plan was formulated for such an institution. It is to have a capital of $100,000,000, subscribed for by the twenty-one republics in proportion to the volume of their trade with the United States during the year 1938.

On March 15, 1940, four countries (the United States, Brazil, Columbia, and Mexico), representing "stockholders" of 165 shares ($16,500,000), agreed to the proposal. Later on, Nicaragua signed, thereby becoming the fifth state required by the bylaws before the project could become operative. By May, 1940, a total of nine had signed. Ratification is still required, of course, by the legislatures. Opposition taking the form of jealousy of the power of the United States, other international rivalries, as well as the feeling of the leading South American banks that their services are adequate, has appeared. Some doubt has been expressed, as well, as to the possible success of the venture in view of the unsuccessful attempt some years ago to form the Foreign Trade Financing Corporation of similar size. Furthermore, British finance, which has tied a number of the countries to the sterling bloc, must be considered.

The Cartel Proposal. The dislocation of established trade relationships, dating in part from friction with Germany from 1933 on and then becoming very acute because of the war, has been an important factor in all recent discussion of hemisphere solidarity. This same period, coincident with the great depression, had witnessed the accumulation of agricultural surpluses and a decline in export markets. In each of the Latin-American

countries, as well as in the United States, various means had been tried to cope with this situation. Destruction of crops, storing of crops, government purchase of crops for ultimate disposition by dumping, etc., generous loan policies, and barter arrangements had all been tried. International understandings had been tried in the instances of wheat, rubber, coffee, and certain nonagricultural products.

It was not at all surprising, then, that discussion of a great cartel to be financed mostly, if not altogether, by United States funds and to be concerned with the purchase of all surplus products should capture the imagination of those attending the Havana Conference. The idea, however, seemed to spend itself in a blaze of headlines and never was formally submitted to the conference.

The plan, never having reached a point of formulation, remained much what one wanted to make of it. It involved not only the disposal of surpluses in other world markets, as well as in Latin-American markets, but also the purchase for those countries of their needed imports. A great deal of wishful thinking was brought to such a scheme. It was argued that, since the United States lost her best market—Europe—and since Latin America lost her best market—Europe—the two mourners might get together and comfort each other. It is true that there is a great deal of trade in this hemisphere that might be called complementary, but there is likewise a great deal that is competitive.

In other words, while a plan might be worked out on paper shifting a Brazilian surplus of corn there and Argentine wheat here, Venezuelan coffee to one place and Bolivian tin to another, it could not work in the face of existing conditions—sovereignty, tariffs, quotas, licenses, exchange restrictions, national animosities, international pressures, domestic lobbies, changing governments, and unsettled conditions.

DISTURBING ELEMENTS IN UNITED STATES–LATIN-AMERICAN RELATIONS

Imperialism. In addition to a dislike for the Monroe Doctrine as the unilateral declaration of a northern neighbor, Latin America has had occasion until recent years to fear the imperialistic encroachment on the part of the United States. While we proved conclusively as a nation at the Peace Conference in 1919 that we were not interested in any additional territory or other spoils of war and although we have no desire to expand on this continent, still the memory of our past expansion rankles and is at times a fruitful source for propagandists who would keep alive the myth of the greedy northern neighbor.

While there is no point in overemphasizing the past, still, if we want hemisphere solidarity, we must understand exactly what the Latin-American has in mind. To the extent that there be no repetition of similar

acts in the future, we may hope for a firmer foundation for friendship.

The Acquisition of Texas, California, and New Mexico. In 1821, Mexico revolted from Spain, and her government was necessarily very weak. In 1827, John Quincy Adams sought to buy Texas from her for $1,000,000. This offer was rejected by Mexico, as were those of President Jackson in 1829 and 1835. In the meantime, her President became alarmed at the large number of people from the United States who were settling in Texas, and in 1830 forbade further immigration. But by the time Texas won her independence, about 50,000 out of the 68,000 settlers were from this country.

Chronologically, Texas won her independence and remained an independent nation for nine years before being admitted into the Union—an independence which Mexico had recognized with the proviso that Texas would not join the United States. But there was the charge by Jackson's enemies that, angered when his offer of $5,000,000 had been refused in 1835, he had stirred up his old friend Houston to fight for Texan independence. It is, nevertheless, true that Jackson did not annex Texas, even though our Congress recognized its freedom from Mexico.

In the subsequent war with Mexico in 1848 we obtained California and New Mexico, although paying $15,000,000 for them and assuming about $3,500,000 in claims of our citizens against the Mexican government. Accordingly, within two years we had become the owners of one-third of Mexico. In 1853, we obtained by purchase still another strip of 30,000 square miles—what is now southern Arizona.

The Acquisition of Hawaii. Although Hawaii is not a part of Latin America, its acquisition again suggested the power of the United States versus a weaker nation. In 1893, Queen Liliuokalani was dethroned and our minister protected the provisional government even to the extent of landing troops from an American cruiser. President Cleveland realized the overzealousness of our American representative and offered to restore the queen if she would pardon all Americans who had taken part in the revolt. This she refused to do. In 1898, Hawaii was annexed by the United States.

The Acquisition of Cuba. Capital from the United States had found its way to Cuba especially in the production of sugar and tobacco. In the struggle of certain Cubans to obtain independence from Spain, various of them who had obtained United States citizenship took part. The treatment of the rebels plus the great loss of United States property caused our Congress to pass resolutions favoring Cuban independence. Various other factors fanned the flame, among them the loss of the battleship "Maine." So, in the words of President McKinley, we went to war "in the name of humanity, in the name of civilization, in behalf of endangered American interests." Following the war, we obtained Puerto Rico, Guam,

and the Philippines—paying $20,000,000 for the latter. Spain withdrew from Cuba.

The Acquisition of the Panama Canal Zone. No one will deny that we have made the best use of the territories annexed, and the same comment must serve for the Panama Canal territory. President Theodore Roosevelt had offered Colombia $10,000,000 in 1903 for the strip of land ten miles wide across the Isthmus of Panama, as well as a rental fee of $250,000 per annum. The Colombian Senate refused, and President Roosevelt found himself facing a time limitation set by Congress. In the words of Professor Jennings:

> Pressure failed to change the attitude of Columbia and when its Senate adjourned . . . . without reconsideration United States gunboats were off the Panama Coast with orders to prevent the landing of armed forces. On November 3, 1903, a "quiet uprising" occurred in Panama and the Columbian authorities were politely expelled. A week later . . . . a representative of the new republic was in Washington, and on November 18, 1903, the Hay-Bunau-Varilla Treaty . . . . was negotiated. Enemies of the administration called our part in the transaction an "ineffaceable blot of dishonor." Official Washington knew of the negotiations and development, for gunboats were there and Acting Secretary of State Loomis sent a dispatch to Panama asking how the revolt was progressing several hours before it began. Professor Coolidge has justly said that we had as little regard for the rights of Columbia as a railroad company had for the claims of an Indian squatter along its route. But Theodore Roosevelt defended the action and in one of his striking statements said it was as easy to nail currant jelly to the wall as to hold the Columbian Senate to its word.[15]

Negotiations with Colombia, following her demands for an apology and reparation, dragged on, owing to delays on both sides, until 1922, when the sum of $25,000,000 was promised in five annual installments.

The United States has also had other unpleasant experiences with Latin America. The boundry dispute between Peru and Chile in the eighties caused both countries to feel that we were abusing our power and almost involved us in a war with Chile. Her warlike attitude was abetted by influential German and English merchants and the rumor that Germany would support her.[16] On other occasions we have landed troops in Haiti, Mexico, Nicaragua, and the Dominican Republic or have had impressive-looking warships near harbors of countries where trouble was brewing. We have also established customs collectorships in Nicaragua,

[15] Jennings, Walter W., *A History of Economic Progress in the United States* (New York: Thomas Y. Crowell Co., 1926), p. 564. Chester Jones in his book, *The Caribbean since 1900* (New York: Prentice Hall, Inc., 1936), p. 312, remarks that during the Panama revolution, only one man was killed—a Chinese who was a noncombatant sitting in his house.

[16] Shippee, *op. cit.*, p. 229.

the Dominican Republic, Haiti, Liberia, and Bolivia when financial conditions proved chaotic. Professor Young refers to such customs controls in the following way: "A collectorship of customs by a foreigner is offensive to the citizens of the sovereign country accepting such an arrangement, and breeds ill-will toward the country that made the loan and that appoints the collector. Experience with such arrangements, and with internal revenue collectorships, which have sometimes been established, have not been very happy."[17]

The Alternative. But there is more to intervention than the Latin-American side. Had the United States adopted a policy of "hands off of Latin-American affairs, the chances are that the Monroe Doctrine would have fallen by the wayside or else, in defending it, we would have become involved in actual warfare with European powers on numerous occasions. Conditions in Latin America were such that what started as a feud between two rival political leaders could end in a general conflagration. We believe that, in the main, the intervention of the United States helped keep the flames under control, and a case can be made out for our forbearance on many occasions. Let us put it another way: What if the United States had been guilty of all the ambitions and greed attributed to the "Colossus of the North"? What if every time our troops landed somewhere they had remained? Would there have been a Latin America today? Or if there had been a Latin America, would not some countries have swallowed up others? Much of this must remain a matter of speculation.

It is uncontrovertible, however, that internal chaos constitutes potentially an international danger, and the term "chaos" is the only word that can describe Latin-American politics. Consider, for example, the Republic of Haiti. Of twenty-six presidents between 1904 and 1915, only two lived out their terms and retired. Seven others died in office—one by poison, one by an explosion in his palace, one by suicide, one by assassination, and one on the eve of his overthrow by revolutionists. The other seventeen were deposed by revolutionists, and two of them were lynched.[18] What would have happened since 1915 except for United States supervision of customs up to 1934 might be guessed. Yet Haiti found time to capture the Dominican Republic and dominate it from 1822 to 1844 and again in 1849. The Dominican Republic, in turn, sought help from various European powers and rejoined Spain as a colony and subsequently revolted. Honduras, famed for her "permanent instability," enjoyed some thirty-three revolutions between February 1, 1920, and August, 1923. The same sort of story can be found in the history of a number of the Latin-American republics.

---

[17] Young, John Parke, *International Trade and Finance* (New York: Ronald Press Co., 1938), p. 288.

[18] Jones, *op. cit.*, pp. 131, 420.

All in all, the United States has meant well. For all of our blunders, if they are to be called that, Latin America today is better off for her northern neighbor.

Economic Penetration. Another source of animosity against the United States has been the relatively recent nationalistic awakening of Latin America to the fact that much of the resources are owned by others than Latin-Americans. This type of economic penetration is perfectly natural. The older industrial regions of the world regularly have had a surplus of capital much needed by the pastoral and agricultural countries. It was thus that the railroads of the United States and other industries were established. In fact, until World War I our position was regularly that of a debtor nation. It was not until the beginning of the twentieth century that our capitalists began to send funds to other countries—primarily to Canada, Mexico, and Cuba. But even by 1914 our investments abroad amounted to less than half of the foreign funds invested here.

Seemingly, while Latin America welcomed English, German, and French funds, they feared that United States investments would mark a reversal of the old saying that trade follows the flag. They feared that economic penetration was but the prelude for political domination. Then, too, our methods of extending the loans may have been at fault. Professor Young, for example, gives this very critical account:

> The British public long ago learned of the foreign market as a profitable outlet for funds. The American public learned of it during and since the war, and, in typical American fashion, went to the extreme in a scramble to lend money to foreigners. During the twenties, investment houses, anxious for the commissions on floating loans, vied with each other to find borrowers—governments, cities, or private business. Highly paid agents with fat expense accounts were sent abroad, especially to Latin American countries, to fawn on officials there and persuade them that they could use American money. Friends and relatives of these foreign officials—anyone who might influence the negotiations—were lavishly entertained. The officials were not reluctant to see money coming into the treasury. Some purpose for the money could usually be discovered. Billions of American dollars were poured into securities issued by national, provincial, and local governments and private corporations in Europe, Latin America, Australia, Canada, and also in the Far East.[19]

The depression, the surrender of the gold standard, and the scarcity of foreign exchange led inevitably to the default of hundreds of millions of dollars of debt: "From the international standpoint, these bad debts and investments did not increase good feeling. The countries to the south blamed the United States for lending so much and at the same time, for wanting to collect what it had lent. Americans in turn felt that the Latin

[19] Young, *op. cit.*, p. 269.

American countries were unreliable, extravagant, and unwilling to make proper efforts to pay."[20]

United States Handicaps in Latin-American Trade. Another source of friction was our trade methods. This was pointed out by the commission that visited Latin America in the eighties and again by the Federal Trade Commission in 1916. The last-mentioned report points out that the outlook of these countries is European; that their language, customs, and traditions are European; that their social intercourse is with Europe; and that, therefore, they carry on trade with Europe. While it is true that the Germans and English are not Latins, their businessmen have been in those countries for such a long time that they have learned to know the Latin-American and have become adapted to his ways.

It is small wonder, then, that these European traders should look with fear on the loss of Latin-American customs to the United States and that they should fight this danger with fair means and foul. That they have used calumny as an effective weapon is known. They also took advantage of the large number of Europeans who had settled in Latin America—men and women who had not found any reason for assimilating Latin-American culture and who continued to patronize the markets in the Old World. Then, too, much of the capital invested was European, and, in these loan contracts, the stipulation was often found that the borrower must purchase his supplies from the country furnishing the loan. Finally, there was one other advantage enjoyed by the Englishman and the European. Competition between them was along national lines, their business frequently being carried on by government-sponsored cartels. The businessman from the United States, however, came as an individual. He faced the competition not only of foreigners but of fellow-citizens. The German merchant's competition, on the other hand, was not with other Germans but rather with other nations. Thus, rivalry and competition was on an entirely different plane.[21]

Nationalism. Another element making for friction in the relations of the United States and the Latin-American states is the wave of nationalism which, never entirely absent, has been accentuated in the past twenty years. Closely related to the other causes of dissatisfaction and in a large measure underlying them, nationalism in the Latin-American countries has taken a somewhat different emphasis from that of the European countries. It has not, for example, manifested itself in a search for colonies or spheres of political or economic influence. It has not, again, taken the form of a large navy, either merchant or for war purposes. Rather, it has

[20] *Ibid.*, p. 270.

[21] *Report on Trade and Tariffs in Brazil, Uruguay, Argentina, Chile, Bolivia, and Peru*, Federal Trade Commission (Washington, D.C.: U.S. Government Printing Office; 1916), pp. 18–20.

assumed other forms with corresponding intensity. This nationalism has not been of the same force in all the countries, but enough has appeared in each to allow certain generalizations. Furthermore, it must be added that the very nature of nationalism must be descriptive of hitherto existing relations with other countries and, to this extent, an irritant in the realm of international, particularly Pan-American, relations.

Latin-American nationalism has taken as its goal the industrialization, the self-sufficiency, and the general internal improvement physically and socially of the country and its people. To this end, high tariffs have continued in favor—both as an encourager of new and existing industries and as a source of revenue for current expenses and internal improvements. For the same reasons export taxes, quotas, embargoes, the imposition of strict requirements on the labeling and packaging of goods, licenses and other import or export restrictions, as well as exchange restrictions and bounties, milling and even mixing requirements, and subsidies have been used with considerable effect. There is, too, a passionate desire to repossess the basic resources which during the years have come under the ownership or control of non-Latin-American interests. The act of Mexico in expropriating the oil lands and farm lands has been most talked about; yet, in the other countries as well, control of the subsoil and the rights of foreigners to engage in the exploitation of natural resources has been a bone of contention. The driving-out of foreign insurance companies and foreign banks, various restrictive measures against foreigners in public service, a restiveness induced by public debts held by foreigners even though in default—these and many other devices are manifestations of nationalism. There is even a decided mercantilistic emphasis on the balance of trade. In fact, this balance underlies much of commercial policy today.

There are some fine questions of international law and even treaty rights involved in this march of nationalism, as well as certain economic questions; but it is a force which exists, which must be recognized, and about which we must build our foreign policy if it is to be an intelligent one. By and large, this nationalism can prove beneficial to the United States as well if it is made to include hemispheric solidarity, a recognition of basic trade relationships, and the emergence of responsible and stable government.

So far as industrialization and self-sufficiency are concerned, the United States has nothing to "fear" if we keep clearly in mind the present status of most of the Latin-American countries and what they mean by "industrialization." Those which today are engaged in manufacture are producing primarily for their own market, and such exports as they offer are primarily those which call for simple processing—mineral, agricultural, pastoral, and forest products. The countries that have developed furthest—Argentina, Brazil, Chile, and Mexico—do not possess large factories.

In Argentina, for example, in 1935, only thirty-six factories employed more than 1,000 workmen, while 73 per cent employed five men or less.[22]

Other Elements. There are many other elements in our relationships that might be cited in trying to show that our task of winning the real good will of Latin America is not going to be an easy one. But enough has been said here to make the nature of the problem clear.

Brighter Elements in the United States–Latin-American Relationships.—Among the elements making for better relationships between the Latin-American countries themselves, and with the United States as well, must be mentioned the cumulative better understanding resulting from the Pan-American Conferences and numerous other conferences, the selection of more able ambassadors and ministers, and the good-will tours of scholars, merchants, and statesmen to and from each country. The settlement in 1929 of the Tacna-Arica dispute between Chile and Peru removed one more incipient boundary dispute. The withdrawal of our marines from Nicaragua early in 1933 and the relinquishment of control in Haiti in August of 1934 left all of Latin America free of our marines.

The conference at Montevideo in 1933 also played a part in bettering relations. At that conference it was agreed that no state has a right to intervene in the internal or external affairs of any other state, that the territory of a state is inviolable and must not be the object of military occupancy or force by another state. This was signed by Argentina, Brazil, Chile, Mexico, Paraguay, Uruguay, the United States, Bolivia, Columbia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, and Venezuela. In 1935 the end of the dispute between Bolivia and Paraguay over El Chaco was brought about.

In 1936 the Inter-American Conferences for the Maintenance of Peace was held at Buenos Aires. Opened by President Roosevelt, it resulted in a Consultative Pact under which the American nations agreed to consult "in the event that the peace of the American Republics is menaced." To some extent, it may be said, this conference developed a "Monroe Doctrine" in which each nation assumed a responsibility in a collective goal. Seemingly, the Monroe Doctrine is left intact and yet at the same time has grown in significance.

The Reciprocal Trade Agreements. Undoubtedly one of the greatest forces in bringing about better understanding were the reciprocal trade agreements entered into with the nations of the world—especially the Latin-American nations and the extension of their provisions to all nations which do not discriminate against the United States. These agreements represented more than the declarations of an international confer-

[22] *Foreign Trade of Latin America*, Part I, "Trade of Latin America with the World and the United States," Tariff Commission (Washington, D.C.: U.S. Government Printing Office, 1940), p. 19.

ence. They were acts instead of words. They were proof of a good-neighbor policy instead of a promise. Agreements were made with Brazil, Colombia, Costa Rica, Cuba, El Salvador, Ecuador, Haiti, Guatemala, Honduras, Nicaragua, and Venezuela. That with Nicaragua alone was terminated, and in a friendly manner, as of March 10, 1938, at the request of Nicaragua.

One jarring note in connection with these agreements was the collapse of negotiations with Argentina and Uruguay early in 1940. Commenting on this situation, at the time, a writer in the *New York Times* remarked:

> Failure of the negotiations has provided the newspapers with a peg on which to hang the old charge that the United States is selfish and imperialistic, interested only in increasing its own profits at the expense of others. That charge has been made so often in even the most responsible newspapers in the last three weeks that the public believes it again. Finally these charges were given official confirmation, even though in much more diplomatic language, in the Foreign Ministry's communique putting the entire blame for the failure on Washington.[23]

In May, 1941, Secretary of State Hull announced the reopening of negotiations with the two countries and a certain optimism of a conclusion of agreements prevailed. This was justified when an agreement with Argentina was signed at Buenos Aires on October 14, 1941. The first trade agreement between the two countries since 1853, it was hailed as a major diplomatic victory over the Axis influence in Argentina and "concrete evidence," in Secretary Hull's words, "of the desire of each country to help the other in the economic field . . . ." Uruguay, likewise, entered a reciprocal agreement with the United States in 1942 along with Peru and Mexico. This brought the total number of Latin-American nations in the program to fifteen. The countries not included in the program were Bolivia, Chile, the Dominican Republic, Panama, and Paraguay. But negotiations were in progress with Paraguay, while those with Bolivia, begun April 4, 1942, had become "inactive."

The Export-Import Bank. Another factor helpful to better relations is the judicious lending policy of the United States government by means of the Export-Import Bank. A fuller discussion of this institution will be offered elsewhere. The first Export-Import Bank was established on February 2, 1934, to carry on relations with Russia, and the second was organized on March 9, 1934, to facilitate trade with Cuba. Later on, the second bank undertook business for all countries but Russia. Ultimately, the collapse of Russian negotiations caused all business to be diverted to the first institution.[24] Because of world conditions, much of the emphasis

[23] John W. White, *New York Times*, January 21, 1940.

[24] For an account of our loan policy after 1933, see Williams, Benjamin H., *Foreign Loan Policy of the United States since 1933* (New York: American Coordinating Committee for International Studies, 1939).

of the bank has been put on Latin America. Aid has been extended to telephone companies and railroad companies, for public works, financing of exports, etc.—the funds being used for Cuba, Brazil, and Chile.

Conclusion. Our relations with Latin America will not suddenly blossom into a beautiful and unbreakable friendship. The wounds that have been suffered during the years are neither healed quickly nor easily forgiven. Commercial relationships of long standing are not broken without reason. Countries lacking capital cannot avoid certain attitudes to those having great wealth. Countries on the eve of industrialization cannot view free trade and reciprocity with too much eagerness. The temperaments of different peoples, as well as their nationalistic ambitions, necessarily must clash at times. And yet, a conscious effort can be made for better relationships and mutual understanding. Outright as well as unintentional insults can be avoided. A closer attention can be paid to the social and business habits of the Latin-Americans. The building of better roads, the improvement of other means of communication, the exchange of cultural values—these are the drops of water which can ultimately wear away the stone walls reared by the past. All of this involves a welcome challenge that should fire the enthusiasm of succeeding generations.

Black and Gray Lists. Before and during World War II, our government was much concerned with the economic and political penetration of Latin America by the nationals of Germany, Italy, and Japan. The economic influence was very old and was resented by the nationalists of the Latin-American nations themselves. But from our point of view, it had begun to assume the proportions of a menace in the sense that it had left the competitive field and had become propaganda for the Axis and against the United States. Another element was the domination of the airways by the Germans who controlled over 20,000 miles of the routes when the war started. Some of these routes came unpleasantly close to the Panama Canal, and some of the pilots were members of the *Luftwaffe*. To overcome this condition, the United States gave economic and diplomatic support to the Pan-American Air Lines and to independent Latin-American lines.

On July 17, 1941, President Roosevelt got down to cases in his Executive Proclamation in which he created *The Proclaimed List of Certain Blocked Nationals*. This was a list of persons and firms (and ships) principally in neutral countries who were "deemed to be acting for the benefit of Germany and Italy"—later, of course, Japan. The assets in the United States of such persons and firms were to be frozen, and no export licenses were to be issued to anyone on the list. In other words, economic and financial relationships of all types were to be ended. The list almost at once came to be known as "*Lista Negra Americana*" ("The Black List"). The list at the time of the proclamation contained 1,800 names, some of which had been on a secret list used by the Department of Commerce in

deciding on export permits prior to this date. Germany sent a sharp note on August 1 to Mexico demanding that that country protest the blacklisting of Axis firms in Latin America and warning that postwar Mexican trade relationships were hanging in the balance. The Mexican government rejected the demand on the ground that it was unable to admit the insinuation that the blacklist violated the trade freedom and sovereignty of Mexico. Sumner Welles, then Acting Secretary of State, bitterly denounced the German note, while the German Chamber of Commerce in Buenos Aires protested that 100,000 persons would be thrown out of work in Argentina alone. The German press declared the list to be "unscrupulous" and "imperialistic." A Mexican labor leader, Vincente Toledano, while declaring the action of the United States to be "excellent, justified, and transcendent," urged the Latin-American governments to nationalize all listed firms to prevent their business from falling into the hands of United States firms.

From time to time the *Proclaimed List* was revised, corrected, and augmented. In printed form it was divided into two parts. Part I related to listings in the American republics, and Part II to listings outside of the American republics. A typical page of this publication is reproduced in Chapter XXX. The list was maintained by the Treasury Department on the basis of reports from federal agents in foreign countries and from businessmen or others who reported suspicious circumstances connected with business activities of foreign businessmen.

The blacklist grew until at its peak it contained 15,446 names[25] and addresses. It was gradually whittled down to 5,887. The list was abolished on July 9, 1946, along with simultaneous action by Great Britain, Canada, and France, each of which had built lists of its own—the British dating from September, 1939. Our State Department was careful to point out that this action "does not in any way constitute a termination of or a slackening of the program for the permanent elimination of Axis external influences either in this hemisphere or in the Eastern hemisphere."

During the period of the blacklist, there grew up a "gray list" containing the names of importers and foreign traders in Latin-American nations and other parts of the world who had come under suspicion of favoring Axis objectives. The list was constantly changing. Some names were removed when suspicion was removed, while others went onto the blacklist. The list contained 2,000 names at one time and 7,500 at another. A movement by some United States exporters for the creation of a "white list" did not get very far because of the enormous amount of work that such a list would have involved.

Just what the effects on the future that these lists will have is difficult to

[25] Just a listing of these names, together with those on the "Gray List" would fill more than 60 pages of a metropolitan telephone book.

suggest because it is well-nigh impossible to trace the careers of these thousands of persons and firms. We can offer the guess, however, that alert citizens in these countries took advantage of this unique situation whenever possible and that the economic influence of the Axis powers received a setback which they did not overcome. The chances are that the channels of trade will be permanently modified. It may well be that the real effects will become clearer years hence with the passage of time.

SUMMARY

Our relationships with the Latin-American peoples go back many years. They have not always been pleasant. Much of the explanation is to be found in the mutual ignorance about each other which has led to suspicions regarding motives. Constructive elements, however, have been the Pan American Union, the numerous Pan-American Conferences and inter-American agreements, the good-neighbor policy enunciated by Franklin Roosevelt in 1933, the reciprocal trade agreements, the Pan-American Highway, and loans by the Export-Import Bank. World War II has also proved a mighty, solidifying influence.

QUESTIONS FOR DISCUSSION

1. For what reasons have the populations of the Latin-American countries had ill feeling toward the United States? In your opinion, to what extent has their attitude been justifiable? What has been the effect of that attitude on commercial relations? What attempts have been made since 1933 to eliminate the causes for the misunderstanding and ill will which have existed?
2. What was the origin of the Pan-American idea? Trace briefly the attempts to improve commercial and political relationships among the American nations. What were the salient principles enunciated by the Havana Conference in 1940?
3. Present three agreements or proposed agreements among Latin-American countries which have been made recently.
4. Describe some of the more important of the United States imperialistic ventures in Latin America.
5. Explain how "economic penetration" by the United States has constituted a disturbing factor in inter-American relations. What issues were involved in the controversy over Mexico's expropriation of foreign oil companies' interests in oil resources?
6. How have our trade methods constituted a disadvantage to us in our relations with Latin-American nations?
7. In what sense have the Latin-American countries been nationalistic? What effect has this had on trade relations?
8. What are some of the more optimistic features in recent United States–Latin-American relationships?

Chapter XXII

THE POLICIES OF ARGENTINA, BRAZIL, CHILE, AND MEXICO

Present Latin-American Tariffs: Some Generalizations. Latin-American tariffs have always been high. Although protective in character, they have been in some cases the principal source of revenue and in all cases an important source. Their trend since 1929 has been upward, but in most cases the countries have been willing to enter trade agreements. The valuations used are frequently arbitrary, thus making the actual ad valorem rates much higher than would appear to be the case. There is also a noticeable tendency toward giving more and more power to the chief executive when it comes to modifying the existing rates, even to the extreme of removing items from the free list or placing them there. In some countries the executive can make tariff changes subject to legislative approval, but in others, again, he needs only to report the changes he has made. In all countries, there is a definite tie-up between the tariff, the state of the balance of trade with each country, the monetary situation, the intensity of nationalistic feeling, and numerous types of legislation intended to discourage imports or to expand exports. It might be added that a number of Latin-American countries still employ export taxes for revenue and other purposes.

In this chapter and those which follow, we shall offer some analysis of the tariff policies of the Latin-American republics. The task is not an easy one. There is no more or less well-defined system of political parties with clear attitudes toward the tariff. There are no party platforms prepared every four years from which planks can be selected for clues to tariff changes. Instability of government, moreover, makes tariff predictions impossible; executive control makes even the printed law subject to sudden and innumerable changes. Even when rates are frankly protective, it is not always clear what is being protected. The tariff is also employed as a weapon, and this, too, presents difficulties to analysis. Latin-American tariffs, it should be kept in mind, are the tariffs of countries in the pastoral and agricultural stages of development warped by nationalistic zeal to correspond to those of commercial and industrial nations. The effect may properly be compared to driving a high-powered automobile of the latest model over a country road hitherto used by horse and buggy solely. The driver of the automobile may manage to get through, but the process is

uncomfortable—ruts, jolts, clouds of dust, delay, damage, fitful startings and stoppings, detours, gear shifting, clashing of gears, heating of the engine, shattered nerves, and what not. And then, if the picture is to be made applicable to a number of Latin-American countries, let us place an inexperienced driver behind the wheel, accustomed to leisurely driving and "giddap" and "whoa," and a few well-meaning back-seat drivers with him. Finally, grant him sovereignty, that is, exemption from outside authority, and you have the makings of a first-class disaster.

THE ARGENTINE REPUBLIC

Early Tariffs. Argentina became a federation in 1861 after a half-century of somewhat anarchic conditions following her freedom from Spain. In the eighties, Argentina was selling 27 per cent of her exports to France, 23 per cent to Belgium, 12 per cent to the United States, and 7 per cent each to Great Britain and Germany. About 33 per cent of her imports came from Great Britain, 20 per cent from France, 8 per cent from the United States, and 7 per cent from Germany.

The Argentine tariff during the past century was not a continuing law but rather an annual enactment in harmony with treasury needs. Hence, no attempt will be made to trace the changes from year to year. Goods were classified during earlier years, not according to schedules consisting of commodities of related types, but rather according to the rates imposed. In this respect the tariff resembled the United States tariff of 1846. The tariff of 1885, for example, assessed the following duties:

1. *55 per cent ad valorem*: tobacco
2. *50 per cent ad valorem*: firearms, powder, and munitions; perfumery; cigars; snuff
3. *45 per cent ad valorem*: ready-made clothing and confections, hats and caps, boots and shoes, saddles and harness, carriages, furniture, matches not of wax, firecrackers, objects of art
4. *10 per cent ad valorem*: iron, not galvanized, in plates, ingots, bars, etc.; white pine, spruce pine (unworked); common salt; all kinds of printing and writing paper
5. *5 per cent ad valorem*: canvas of all kinds, gold and silver (worked), sewing and embroidery silk, plows, pipes, casks, printed books, all kinds of machinery for agricultural or industrial purposes, steam engines, thread and wire on spools, staves, sulphuric acid, lime
6. *2 per cent ad valorem*: precious stones (unset)
7. *Specific duties*: wheat, starch, coffee, macaroni, crackers and biscuits, flour or corn meal, hominy, tea, yerba maté, sugar, wine, beer, cider, alcohol, kerosene, stearine and paraffin candles, cards, wax matches
8. *Free list*: vessels and machinery for vessels, coal, wire for fencing, telegraph wire, blood stock, live animals, fish, fresh fruit, immigrants' furniture and tools, gold and silver, plants, iron and steel for railways and tram-

ways, locomotives and wheels, ungalvanized iron pipes for gas and water, quicksilver, fan guards, mining powder, articles of worship, seed for agriculture, specifics for scab in sheep, red and yellow clay
9. *4 per cent export taxes:* unwashed wool, wild fowl, skins, ostrich feathers, etc.

In 1893 the rates were quite generally increased by moving such items as ready-made clothing, boots and shoes, and furniture to the next higher classification of 50 per cent and by adding additional classifications. Stockings were assessed 45 per cent; canvas sacks, borax, fine lace, blankets, and screws, 40 per cent; tissues of cotton or cotton cloth, 20 per cent; oak, spruce, and white pine, bolting cloth of silk, 15 per cent; cocoa, white lead, tin, coal, tar, 10 per cent; canvas or sail cloth, 4 per cent; raw cotton, sulphur, precious stones, zinc, 2½ per cent. The law of December 20, 1905, placed the percentages to be collected on an official valuation basis. A system of twenty schedules, embodying 3,699 paragraphs, was substituted for the earlier classification:

1. Articles free of duty
2. Raw or prime materials
3. Provisions and other groceries
4. Beverages
5. Tobacco
6. Tanned hides and skins
7. Saddlery and harness makers' wares
8. Footwear, accessories, and materials therefor
9. Furniture
10. Jewelry
11. Musical instruments
12. Hats and accessories
13. Hardware, including marine supplies, lumber, and machinery
14. Electrical goods, machinery, etc. and articles for lighting
15. Arms, gunsmith's wares and accessories
16. Ceramic wares, crystal, and glassware
17. Textiles
18. Made-up articles and clothing
19. Miscellaneous, including paper and notions
20. Drugs, including paints, oils, chemical products, druggist's supplies, surgical instruments, etc.

The Argentine tariff of the first World War period subjected most imports to a duty of 25 per cent ad valorem (official valuation), but there were three groups of exceptions. Raw materials, utilized in national industries but not produced in Argentina, were assessed rates ranging from 5 to 20 per cent; agricultural machinery and related products were given free entry; manufactured goods and products similar to those produced at

home were subjected to rates of from 30 to 50 per cent. These rates represented an attempt to get as great a revenue for the government as possible but at the same time to give protection to industry. Political sentiment favored protection, but no party had a clear fiscal program at the time this tariff was framed.

In the years immediately following World War I, the tariff was made up essentially of official valuations subject to a number of increases in the ad valorem rates. In 1923 a new and basic tariff law went into effect. With modifications, it still serves. The rates showed a sharp rise amounting to about 33 per cent over previous duties. The law contained maximum and minimum rates and provisions for surtaxes and higher duties. To the executive was given the power to increase duties by half and to levy rates up to 15 per cent on goods hitherto free against the products of countries not granting Argentina the most-favored-nation treatment. He could likewise lower duties. But here, again, he was limited to not more than one-half the legal rate for equivalent concessions. In 1939 he was authorized to prohibit the exportation of prime necessities, to reduce the additional 10 per cent duty placed on them in 1931, and to fix maximum retail prices. He was also given power to expropriate for the government supplies of these articles. Owners of raw materials were to be paid the cost plus a percentage not exceeding 10 per cent. Owners of other goods were to receive the fixed maximum retail price. The classes of goods which could be so treated were food, clothing, fuel, medicine, and construction materials.

Trade Agreements. In 1933, Argentina, seeking to help her farmers and at the same time fearing the effect of the Ottawa Agreement on her relations with Great Britain (her best customer), sent her Vice-President, Dr. Julio A. Roca to London at the head of a commission. On May 1, 1933, a convention was signed in accordance with which the United Kingdom undertook not to restrict the purchase of Argentine produce below a fixed level unless because of circumstances beyond control and, then, only after consultation with Argentina. Such a new level, however, was not to be arranged unless imports from the British dependencies were similarly restricted. Argentina, in turn, contracted to spend on British goods all of the exchange derived from her exports to Britain except such amounts as were reserved for the service of her public debt abroad. The agreement also covered over three hundred tariff items—concessions which were generalized to all countries.

In the years following, treaties, some of them similar to the above, involving tariff concessions in some cases and exchange arrangements in others, were entered into with Belgium, the Netherlands, Switzerland, Germany, Spain, Finland, Uruguay, Austria, Italy, Czechoslovakia, Hungary, France, Chile, Brazil, and Denmark. These countries, it should be

noted, accounted for over half of the total imports into Argentina and, therefore, stood in a strong position as buyers of Argentine exports as well. In May, 1940, an agreement with Japan provided for the balancing of trade between the two countries. Argentina agreed to admit a list of 175 groups of Japanese products. Of these, all but 45 were to be admitted without limit. The 45 consisted of products largely supplied by Great Britain, and they were to be subject to quotas based on average imports for the years 1937–39.

In respect to something over 1,250 tariff items, Japan was placed in a preferred position so far as the United States was concerned. Among the items were motorcycles; toys; rayon yarn; fish; cotton, silk, and woolen textiles; ready-made clothing; cutlery; hardware; and household fixtures. The total that Argentina undertook to spend annually was to be limited by the amount of Argentine goods that Japan would buy but was set tentatively at 30,000,000 yen for the first year.

In 1935, Argentina, angered by provisions of the Chilean-Peruvian commercial treaty, which she claimed granted a virtual monopoly to Chilean wheat in the Peruvian market, raised duties against Peruvian petroleum. Peru retaliated with an increase of 50 per cent in her rate on wheat imported from Argentina. The dispute was finally settled two years later. Other treaties in recent years have been negotiated with Paraguay to facilitate frontier traffic and with Brazil for bartering wheat for rice.

In 1940 the lower official customs valuations, import duties, and other provisions of the treaty with Chile were generalized to all countries. For the first time, too, a treaty with Colombia providing for the most-favored-nation clause was signed. The same year witnessed the conclusion of a treaty with Brazil looking toward a closer reciprocal balance of trade. Negotiations were likewise under way with Bolivia, Norway, Greece, Sweden, Chile, Colombia, Uruguay, and Cuba. On October 6, 1940, recommendations were made simultaneously to the governments of Argentina and Brazil by the ministers of the treasury of those countries looking toward closer collaboration. The chief points have already been listed in the previous chapter.

Dominating Factors in Argentine Commercial Relations. In common with other Latin-American states, Argentina is motivated by a nationalistic spirit which has made for high tariff rates, quotas, export restrictions, exchange restrictions, and milling and mixing requirements. At the same time, she is dependent upon the customs for about 40 per cent of her annual revenue—a consideration which must temper her nationalism.

Argentina is primarily an agricultural and pastoral nation. She is the largest exporter of beef and corn, a great producer of wheat and wool for export, and dominant in the production of linseed. Her best customer

has been Great Britain, which has enjoyed her friendship. This probably helps to explain the lukewarmness of trade relations with the United States in the past.

Argentine Relations with the United States. There have been many reasons cited for the lukewarmness just mentioned. Besides those that hold true for Latin America as a whole, Argentina resented our lack of interest in her in early days. With the years came hundreds of thousands of settlers from Italy, Spain, and Germany. They drew Argentina closer to the Old World. Refugees from our policies in the Caribbean fled to her capital city and undoubtedly painted the United States in blackest colors.

European capital supplied Argentina with her railroads, her department stores, and many of her industries. When Argentina did turn to us during World War I, her experiences were discouraging.[1] In the decade of the thirties the Hawley-Smoot Tariff caused additional animosities, especially the section dealing with meat.

Argentine Beef. The average person in the United States has a hazy recollection that something occurred within the past ten years having to do with Argentine beef. In order to understand this curious phase of United States–Argentine relationship, therefore, it is well to recall the facts of the situation. A half-century ago, our Department of Agriculture was given the authority to prohibit the importation of meats from any part of the world or any region of a country where the foot-and-mouth disease existed. Although purely a quarantine measure for health reasons, this authority, when exercised, had more force than a prohibitive tariff wall. A tariff barrier, at least, might be scaled on occasion. In 1926 the department issued an order prohibiting the entry into the United States, effective January 1, 1927, of fresh or frozen meats from all infected regions. At that time there were fifteen countries affected in whole or in part. The two exporting countries most seriously concerned, however, were Argentina and Uruguay.

The Hawley-Smoot Tariff of 1930 took away the authority of the department to place a prohibition on a section of a country rather than that on a country as a whole by providing the following (Section 306*a*):

> If the Secretary of Agriculture determines that rinderpest or foot-and-mouth disease exists in any foreign country, he shall officially notify the Secretary of the Treasury and give public notice thereof, and thereafter, and until the Secretary of Agriculture gives notice in a similar manner that such disease no longer exists in such foreign country, the importation into the United States of cattle, sheep, or other domestic ruminants, or swine, or of fresh, chilled, or

[1] White, John J., *Argentina: The Life Story of a Nation* (New York: Viking Press, 1942).

frozen beef, veal, mutton, lamb, or pork, from such foreign country, is prohibited.

On May 24, 1935, the Argentine Sanitary Convention was signed which would have restored, so far as the United States and Argentina were concerned, the provision in force prior to the Hawley-Smoot Tariff, namely, the right to prohibit importation from affected regions. It was to go even further. It would have denied to either country the right to impose restrictions against areas not affected. But our Senate refused to ratify the treaty in spite of pressure from the administration. In 1937, Secretary Hull pointed out that the "draft of the treaty was discussed with and carried the approval of the Department of Agriculture. The experts of that department have given careful study to claims concerning outbreaks of the disease in Patagonia and have found no evidence to support them. The entire area of Patagonia is recognized as free from foot-and-mouth disease."

The Senate was influenced in its unwillingness to ratify the treaty by the petitions sent in by the legislatures of Arizona, Colorado, Kansas, Minnesota, Montana, Nevada, New Mexico, North Dakota, Oregon, and Texas. Again in 1938 the Senate refused to act favorably.

During the World's Fair in New York, our government refused to allow Argentine beef to be served in the Argentine building. This also helped to heap fuel on the fire. Argentina tightened her exchange control. Later on, in February, 1939, Argentina announced that the state of her trade was such that in the future the purchases by that country would be conditioned by the size of the purchases of each country in the Argentine market. Since the sales of the United States were so much larger than the purchases from Argentina, it meant virtually a decline of 40 per cent in our exports to her as compared with the trade in 1938.

The final "insult" occurred in May, 1939, when our navy placed an order for 48,000 pounds of canned corn beef from Argentina at 16 cents a pound ($7,680), at a time when the bid of domestic packers was 24 cents a pound. The order received the President's approval. United States livestock associations and others became very indignant. As the *New York Times* described the situation:

> The President's action brought a storm of protest from the American cattle country and the Congressmen representing it. By favoring a cheaper import, it was asserted, Mr. Roosevelt was reducing the American cowboy to the economic status of the Argentine gaucho; he was putting the prairie on a level with the pampas. Furthermore, he had traduced the quality of American beef. In a press conference last Tuesday the President retorted that he had not meant to cast aspersions on the virtue of the American cow, nor on the valor of the American bull. But, he pointed out, since Argentina did not have as great a

market for fresh beef as do the American packers, the South American canned better cuts.

An amendment which would compel our sailors and marines to "eat American" was added by Congress to the Navy Department Appropriations Bill, which the Senate passed on Friday. On the same day the Senators learned that their own restaurant in the Capitol serves only Brazilian corned beef.[2]

But an episode which can be lightly regarded in the United States may be understood differently elsewhere. In Argentina the producers of livestock are the country's aristocracy and are bound together in a very powerful political group, Sociedad Rural Argentina. An insult to "beef" is accordingly a serious matter to an influential group and has far-reaching repercussions. Furthermore, it is difficult for the Argentine to understand a restriction on beef import when the industry is controlled entirely by United States and British exporting firms. There is one domestically owned firm of lesser importance.[3]

Toward the end of 1939, the United States found herself in the same classification as Japan and a few other countries of minor importance in so far as Argentina was concerned and subject to all sorts of limitations. Early in 1941 the reciprocal trade negotiations collapsed.

United States–Argentina Stabilization Arrangement. At the beginning of 1941 the United States and Argentina completed arrangements for promoting stability between the peso and the dollar. The United States Stabilization Fund set aside $50,000,000 for the purpose. It was expected that this step would contribute to better commercial relations. Subsequently, the total credits made available totaled $110,000,000. With European markets closed, the United States became the chief customer as well as the chief supplier of Argentine imports.

Reciprocal Trade Agreement. Negotiations were once again undertaken to bring about a reciprocal trade agreement later in 1941. This time the efforts met with success, and on October 14, 1941, an agreement was signed at Buenos Aires. The agreement reduced rates against thirty-nine items of United States exports and bound eighty-eight against any increase during the life of the agreement. We, in turn, offered concessions on goods which in pre-war years amounted to 90 per cent of Argentina's sales to us. Argentina likewise granted us the most-favored-nation treatment. But almost all of the concessions, on both sides, including the most-favored-nation clause, were granted subject to limitation of time, season,

[2] The explanation offered for the superiority of the Argentine product, aside from her smaller market for fresh meat, is that the cuts of meat which are used in the United States for the manufacture of sausage and in the form of hamburger are canned in Argentina—the latter not having gone into the manufacture of sausage on any large scale.

[3] Phelps, Dudley M., *Migration of Industry to South America* (New York: McGraw-Hill Book Co., 1936), p. 167.

and financial conditions. Most of these limitations were considered necessary because of the uncertainties of war.

Argentine Trade Relations. The principal exports of Argentina are wheat, corn, flaxseed, meats, and other pastoral products. Argentine corn plays an important part in European markets because it is of the flint type. This type is preferred in Europe because its small kernels are adapted to poultry feeding. It is likewise drier than other corn and is less perishable. The United Kingdom has been far in advance of the United States and Germany as Argentina's best customer. Germany occupied the

TABLE 31

ARGENTINE TRADE RELATIONS, 1909–13, 1921–40*

Year or Period	Exports Percentage to—						Imports Percentage from—						
	U.S.	U.K	Ger.	Jap	Fr.	Bel	U.S.	U K.	Ger.	Jap.	Fr.	Italy	Bel.
1909–13..	6.7	25.5	12.5		..	..	14.4	31.0	16.8	0.2	9.8	8.5	.
1921–25. .	9.5	24.9	8.8		.	..	23.8	22 9	12.5	0.8	6.2	7.4	..
1926	9.1	25.1	10.4		.	..	25.5	19.5	12.0	0.5	7.4	8.9	..
1927.....	8.2	28.3	15.9	..	.	..	25.4	19.4	11.3	0.6	6.9	8.0	.
1928.....	8.3	28.7	13.7			..	24.8	20.3	12.7	0.6	7.1	8.9	..
1929	9.8	32.2	10.0		.	..	26.9	18.6	12.2	0.5	6.1	8.8	..
1930 ...	9.7	36.6	8.8		.		22.1	20.6	11.6	0.6	5.3	7.7	..
1931.....	6.1	39.0	8.3	.	.	.	16.0	21.0	11.6	1.1	6.7	9.2	..
1932....	3.4	36.1	8.7			..	13.6	20.4	9.7	1.6	5.1	9.2	..
1933	7.8	36.8	7.7	..	.	..	12.7	21.4	10.8	2.3	5.1	9.0	..
1934	5.5	34.8	8.1	.	..	.	14.8	22.5	9.7	2.2	5.0	6.2	..
1935	12.1	34.3	6.9	..	.	.	14.4	21.2	9.1	4.1	4.5	4.3	..
1936 ...	10.5	31.8	5.7	1.6	5.4	7.8	14.6	20.4	9.2	3.6	4.2	5.2	6.4
1937....	12 8	29.1	6.8	1.0	4.0	8.8	16.4	18.9	10.4	3.3	3.8	5.5	6.1
1938.....	8.5	32.8	11.7	1.2	5.4	7.4	17.7	18.3	10.1	3.3	4.3	5.5	5.2
1939. ..	12.0	35.9	5.7	0.7	4.9	7.1	17.2	19.9	9.1	.8	5.6	2.7	6.5
1940...	17.5	36.4	...	1.5	5.8	2.5	29.1	19.8	0.7	2.1	3.0	2.3	2.8

* *Commerce Reports*, February 24, 1940; *International Reference Service*, Vol. I, No 55 (August, 1941).

position as second best buyer except during the years 1921–25, 1930, 1933, 1935–37, and 1939, when the share of the United States exceeded that of Germany.

So far as imports are concerned, the United Kingdom enjoyed the largest share of the market prior to World War I. Beginning in 1921, the United States became a slightly larger supplier. Between 1926 and 1930 this country was definitely in the lead. After 1931 the United Kingdom won back her leadership, although the gap has been closing since 1938. Neither Germany nor France ever regained their pre-war importance. The German sellers held on to about 10 per cent of the market from 1932 onward. French sales fell to a low of 3.8 per cent in 1937 and then rose to 5.6 per cent in 1939. Italy fell below her pre-war sales only during the postwar adjustment, climbed gradually, then declined to 5.5 per cent in

1937 and 1938. Her share in 1939 was again very low (2.7 per cent). Until 1931 the Japanese figured unimportantly in the Argentine market. Their sales reached a high point in 1935 (4.1 per cent), but in 1939 was again less than 1 per cent. The other large customers of Argentina in recent years have been Belgium (6.1–10.1 per cent), Brazil (4.1–5.8 per cent), and the Netherlands (7.2–9.0 per cent). Other hemisphere customers are Canada, Chile, Mexico, Paraguay, Peru, and Uruguay.

It is also significant, however, that Argentina has been steadily buying less from these six countries and more from the rest of the world. During the years 1909–13 the percentage of goods purchased from these six was 80.7 per cent; this had fallen to 73.6 per cent between 1921 and 1925. Other countries, each of which accounts for more than 3 per cent of Argentine imports in recent years, are Brazil, India, Peru, Belgium, (6.5–9.4 per cent), and the Netherlands (7.3–9.4 per cent). Purchases from other countries are small, those from the U.S.S.R. and Mexico being negligible.

United States–Argentina Trade Viewed Quantitatively. Recognizing the difficulties associated with value figures, it is perhaps simpler and more realistic to view some of the exports and imports quantitatively. What a peso is may or may not be certain; but anyone can visualize a sewing machine, a plow, or an airplane.

Accordingly, tables have been used showing the principal exports from the United States to Argentina and the principal imports by the United States from Argentina in terms of physical units rather than in terms of dollars. This same practice has been followed for Latin-American countries.

Our pre-war exports to Argentina (Table 32) consisted primarily of finished manufactured goods, iron and steel structural materials, chemicals, and some partially processed goods. Little of an agricultural nature entered the trade. On the other hand, and in sharp contrast (Table 33), practically everything which Argentina sent us was agricultural in origin except for some minerals. The trade between the two nations was essentially complementary rather than competitive—a condition which had lasted for many years but which is already changing with the industrialization of Argentina.

Recent Developments in Argentina. In 1943, an agreement with Chile pledged that Argentina would purchase natural sodium nitrate only and would not construct a synthetic nitric acid plant. This arrangement is to hold until 1953. Argentina also agreed during the year to appoint members to a mixed commission to report upon the feasibility of a customs union with Chile. Such a union, if successful, visioned the ultimate inclusion of neighboring states as well. In January, 1947, such a union was accomplished in part. Argentina agreed to lend Chile $175,000,000. Of this

TABLE 32

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO ARGENTINA, 1938–40*

Commodity	Unit	Quantity		
		1938	1939	1940
Cigarettes	Thousands	121,275	7,845	6,211
Tobacco, unmanufactured	1,000 lbs.	1,607	884	2,135
Hops	"	..	244	660
Rosin	1,000 bbls.	47	57	29
Southern pine, rough	1,000 ft.	74,780	67,113	40,173
Wood pulp	Short tons	458	2,017	14,035
Cotton yarn for manufacturing	1,000 lbs.	88	320	1,948
Mercerized cotton yarn	"	71	309	1,151
Cotton sewing thread	"	...	3	279
Spun silk	"	3	43	85
Silk tram, organzine, etc.	"	7	58	114
Newsprint and uncoated book paper	"	91	1,352	18,771
Greaseproof and waterproof paper	"	505	461	1,509
Surface-coated paper	"	199	2,916	3,895
Plain writing paper	"	855	3,793	13,746
Bituminous coal	1,000 long tons	14	208	330
Crude petroleum	1,000 bbls.	1,504	2,125	779
Portland cement	Barrels	2,488	400	844
Plate glass	1,000 sq. ft.	18	10	413
Combines or reaper threshers	Number	2,564	1,808	671
Safety-razor blades	1,000 doz.	2,099	670	8,060
Sewing machines	Number	6,689	6,961	4,525
Typewriters	"	10,256	7,590	12,763
Accounting and calculating machines	"	1,594	1,466	2,497
Freight cars	"	....	50	153
Passenger automobiles	"	18,727	11,676	10,804
Trucks and busses	"	7,792	5,567	7,242
Automobile tires (casings)	"	6,431	2,338	1,112
Airplanes	"	93	16	14
Wire and manufactures	1,000 lbs.	21,848	29,892	71,763
Rubber-covered wire	"	406	75	1,135
Refined copper	"	5,028	3,192	8,423
Tin plate and taggers tin	"	9,932	22,037	78,054
Structural shapes, not fabricated	Long tons	1,050	2,130	19,300
Iron sheets, black	1,000 lbs.	3,867	7,050	38,374
Tubular products and fittings	"	6,221	9,734	78,716
Strip, hoop, band, and scroll, iron and steel	"	581	8,409	32,872
Steel sheets, black, unalloyed	"	6,048	11,812	86,828
Concrete reinforcement bars	"	. .	10,332	76,270
Plates, not fabricated, unalloyed	"	3,347	14,849	57,117
Other steel and iron bars	"	2,566	11,281	136,720
Steel sheets, galvanized	"	135	477	8,292
Cooperage, shooks, tight	1,000 sets	243	286	171
Ready-mixed paints, stains, enamels	1,000 gal.	236	114	82
Coal-tar colors, dyes, stains	1,000 lbs.	251	804	780
Acids and anhydrides	1,000 gal.	66	1,813	2,143
Caustic soda	1,000 lbs.	24,924	34,210	21,349

* Selected from "Trade of the United States with Argentina in 1940," *International Reference Service*, Vol. I, No. 26 (June, 1941).

TABLE 33

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM ARGENTINA, 1938–40*

Commodity	Unit	Quantity		
		1938	1939	1940
Canned beef	1,000 lbs.	33,902	34,723	29,873
Sausage casings	"	3,111	5,634	5,750
Cattle hides	1,000 pieces	525	1,893	2,386
Horse, colt, and ass hides	1,000 lbs.	360	6,921	6,351
Sheed and lamb skins	1,000 pieces	3,125	5,133	6,287
Goat and kid skins	"	1,892	2,505	1,870
Bones, hoofs, horns, unmanufactured	1,000 long tons	13	36	38
Horsehair, manes, and tails	1,000 lbs.	853	1,191	2,061
Dried blood	Long tons	2,417	9,085	6,901
Glycerin, crude	1,000 lbs.	2,062	2,910	2,967
Wool	"	22,527	44,263	90,222
Tankage, not for fertilizer	Tons	13,754	30,467	28,527
Casein or lacterene	1,000 lbs.	209	13,568	22,142
Cheese	"	1,465	2,357	7,115
Corn	1,000 bu.	62	78	1,160
Bran, shorts, other wheat by-product feed	Short tons	...	31,017	100,986
Pears, green, ripe, or in brine	1,000 lbs.	1,904	4,218	11,895
Grapes	1,000 cu. ft.	295	319	246
Flaxseed	1,000 bu.	14,342	15,277	9,872
Quebracho extract	1,000 lbs.	62,981	122,346	80,795
Canary seed	"	7,333	8,145	8,329
Argols, tartar and wine lees	"	1,656	158	4,920
Tungsten ore	"	6	106	885
Lead ore	"	183	...	27,111
Tin ore	Long tons	..	89	288

* Selected from "Trade of the United States with Argentina in 1940," *International Reference Service*, Vol. I, No. 26 (June, 1941).

amount, $75,000,000 was to be used for improving Chile's rail, road, and sea links with Argentina, and an equal amount was to go toward Chile's industrial development. The remainder was to serve as a revolving fund to facilitate trade. In 1943, trade agreements were signed with Peru and Ecuador.

In 1944, an increase of 50 per cent in duties was announced as a part of the plan to build up domestic industries. Toward the same end, prohibitions on certain imports and quotas on others have likewise been put to work in the furtherance of the industrialization of Argentina. At the end of the war, practically all foodstuffs were subject to export control conditioned upon sufficient domestic supplies. But that some of these plans are transitional is suggested by the fact that the government appointed a commission to revise the tariff structure along lines once suggested by the League of Nations.

In 1946 a ten-year-old treaty with the United Kingdom covering three

hundred dutiable items expired. Later on, the rates continued, pending a new agreement. On September 17 the two governments signed a treaty covering other phases of international commerce. Britain pledged to buy for a period of four years Argentina's exportable surplus of canned meats and frozen and/or chilled beef, veal, mutton, lamb, and pork. Argentina undertook, among other things, to take over the assets of the British-owned railroads. This was done in February, 1947. The sum involved was $600,000,000 and represented Britain's largest single overseas investment. The sale ended ninety years of British dominance in Argentine transportation. In the same year the Argentine Corporation for the Promotion of Trade which had been set up in 1941 was replaced by the Argentine Institute for the Promotion of Trade. It enjoys broad powers especially in the field of international trade. In addition to serving as the government agency for negotiating commercial agreements and supervising them, it purchases all supplies for the government which come from abroad and is authorized to purchase, sell, exchange, store, finance, and transport all types of goods.

Argentina entered a commercial agreement with Ecuador for reciprocal purchases which looks toward tariff concessions. Argentina promised to send 10,000 tons of wheat, 50,000 head of cattle, 30,000 sheep, 10,000 pigs, 7,000 goats, and 3,000 horses in return for Ecuador's shipments of 6,000 tons of rubber, 200,000 tons of petroleum, 1,000,000 square feet of balsa wood, and 20 tons of cinchona bark. A commercial protocol was also signed with Belgium.

A new maximum price law was passed replacing that of 1939. It is planned to keep it on the statute books until June 3, 1952. Under it, the government enjoys very broad powers over all commercial activities, even to the extent of adjusting tariffs, removing duties, and prohibiting exports. Seemingly, the economy of Argentina is a controlled one. A certain sympathy for Spain can be seen in the recent trade agreement between the two countries [4] which will shape commercial policies for some years to come. It calls for the reciprocal purchases of the goods of each and the extension of credits to Spain. Argentina has undertaken to sell to Spain a minimum of 400,000 tons of wheat in 1947 and 300,000 tons in 1948 if the exportable surplus does not fall below 2,600,000 tons. But if it does, then the amount to be sent is to be 15 per cent in 1947 and 12 per cent in 1948 of the surplus for those years. Argentina is also to send 120,000 tons of corn in 1947 and 100,000 tons in 1948. Again this is conditioned on a surplus of 500,000 tons available for export. Should the amount fall short, Spain is to receive 24 per cent in 1947 and 20 per cent in 1948 of the

[4] This account is based on the information in *Foreign Commerce Weekly*, November 30, 1946.

actual surplus. Spain is to buy 8,000 tons of cooking oil and 16,000 tons of oil-bearing cakes. Other items to be sent in minimum fixed quantities annually are beans, lentils, frozen meat, bacon, salted meat, casein, wool, flax tow, cotton, tallow, linseed oil, oil cakes, eggs, cowhides, quebracho, horns, tripe, and glandular and hormone products.

Argentina is to make purchases of Spanish goods between January, 1947, and December, 1951, on the basis of the following annual minimum tonnage: pig iron, 15,000; sheet iron, 5,000; lead, 5,000; cork, 5,000; manufactured cork, 3,000; cigarette paper, 600; and olives, 2,000. Argentina is to buy, in addition, 15 per cent of Spain's exportable surplus of olive oil.

The Spanish government has also promised to facilitate exports to Argentina of some seventy categories such as textiles; zinc; agricultural machinery and implements; industrial machinery; Diesel, electric, and gasoline motors; typewriters; hardware; firearms; plate glass; and alcoholic beverages. All Argentine exports and imports are to be handled through the Argentine Institute for the Promotion of Trade.

Another part of the agreement calls for the acceptance of 400,000,000 pesos in bonds of the 1946 External Loan of the Spanish government bearing interest at 3.75 per cent. The Spanish government is also to receive a revolving credit of 350,000,000 pesos at 2.75 per cent interest to run for three years and extendable to October 31, 1951, by mutual agreement. Other engagements undertaken have to do with unrestricted Spanish immigration into Argentina, Spanish aid in the form of advice and skilled labor, and the promotion of air service between the two countries. The agreement promises that the merchant marines of both countries are to be given preference in the transportation of the merchandise involved. This should help the merchant marine of Argentina which now has a gross tonnage of 354,000 tons, and Spain, which now has 850,000 tons of ships of 1,000 gross tons and over. Spain is thought to be planning a merchant marine with a gross tonnage of 2,000,000 as a minimum necessity by 1953.

BRAZIL

The Tariff until 1900. Brazil became a federation in 1891 after a period of unsettled conditions and dictatorship. Prior to this time we carried on both an export and an import trade with her. From 1891 until 1894 her relations with the United States were based on a reciprocal trade treaty. But from its termination by our tariff of 1894 until the reciprocal agreement effective January 1, 1936, there was no commercial treaty of any kind between the two countries. This caused no particular harm to Brazil because almost all of her exports of the period entered this country duty-free—rubber having been placed on the free list in 1870 and coffee

two years later. By 1900, 95.1 per cent of the imports entered free and only 4.9 per cent were dutiable. In 1911, 99.6 per cent of the imports were free, and in 1915, 97.7 per cent were likewise free.

Our exports to Brazil, however, were always heavily taxed in spite of requests by our representatives on a number of occasions for more favorable treatment. Finally, our government found a bargaining weapon in a section of the tariff of 1897. This authorized the President to place a duty of 3 cents on each pound of coffee coming from any country which imposed duties on our exports "in view of the admission of such coffee . . . . into the United States" duty-free. But even so, it required five years of negotiations to bring about a more favorable treatment.

The Tariff of 1900. The Brazilian tariff of 1900 was, at the time of its passage and for some years thereafter, the highest tariff in the Western Hemisphere. It was the result of strong protectionist sentiment and the lack of any organized opposition. The rates, moreover, were official rates, with emphasis on specific duties. Out of the 1,070 paragraphs covering 2,839 items, only 142 were subject to rates which were ad valorem in character. Some idea of the nature of the tariff, as well as of the goods entering Brazilian economy at the time, may be had by referring to the schedules of that act:

1. Animals, live and prepared (dissected, stuffed, or mounted)
2. Hair and feathers
3. Hides, skins, and leather
4. Meat, fish, oleaginous substances, and other animal products
5. Ivory, mother-of-pearl, tortoise shell, and other animal substances
6. Fruits
7. Vegetables, farinaceous products, and cereals
8. Plants, leaves, flowers, fruits, seeds, roots, barks, peels, forage, and spices
9. Vegetable juices, alcoholic and fermented beverages, and other liquids
10. Materials and substances for perfumery, dyeing, painting, and other uses
11. Chemical products, drugs, and pharmaceutical specialities
12. Wood
13. Cane, bamboo, rushes, rattan, osiers, and other lianes
14. Straw, esparto, coir, agave, pissava, paina, and other fibrous materials
15. Cotton
16. Wool
17. Flax, jute, and hemp
18. Silk
19. Paper and manufactures thereof
20. Stones, earths, and other minerals
21. Louca (farince, porcelain, etc.) and glassware
22. Gold, silver, and platinum
23. Copper and its alloys
24. Lead, tin, zinc, and their alloys

25. Iron and steel, raw or wrought
26. Metalloids and miscellaneous metals
27. Arms and gunsmiths' wares, munitions, and war supplies
28. Cutlery
29. Watches, clocks, works, etc.
30. Carriages and other vehicles
31. Mathematical, physical, chemical, and optical instruments and articles
32. Surgical and dental instruments and articles
33. Musical instruments and accessories
34. Machines, apparatus, and tools and miscellaneous utensils
35. Miscellaneous articles

Export duties were also a recognized part of the Brazilian tariff system and served as the chief revenue for some of the states comprising the federation. The state of São Paulo depended on the tax on coffee, while the states of Amazonas and Pará imposed similar taxes on rubber. Export duties, it should be noted, however, applied as well to goods originating in one Brazilian state intended for consumption in another member of the confederation.

United States–Brazilian Relations after 1903. In 1903 a proposal to reduce certain tariff rates against the United States, notably that on wheat flour, met such strong opposition from British and others interested in the Brazilian market that it was rejected by the Senate of that country. There was, however, an old law on the statute books authorizing the President to grant a 20 per cent preference to articles coming from countries according free admission to Brazilian coffee. Accordingly, without needing legislative approval, the President announced, on April 16, 1904, reduced rates of 20 per cent on wheat flour, rubber products, watches and clocks, inks (except writing inks), colors, varnishes, and condensed milk. In December, 1904, the Brazilian Congress not only voted against the President's decree but took away his authority to act in the future without reference to Congress.

Prices during the following year were such as to cut down imports of flour from the United States so materially that opposition died down, and, at the end of that year, the concessions were renewed—typewriters, refrigerators, pianos, scales, and windmills being added to the list. These preferential rates were renewed in 1907, 1908, and 1909. In the last-mentioned year, following the passage of our tariff, Brazil was asked to give additional concessions to justify receiving the minimum rates on her exports to this country. As a result, cement, dried fruits, desks, corsets, and school furniture were added to the list on January 1, 1910. The President was also authorized to make such additions as he saw fit. The following year, the preference for flour from the United States was increased to 30 per cent. The concessions were renewed annually, carrying after 1916 the

proviso that the goods were to be the product of the United States and not re-exports.

An Evaluation of Brazilian Preferential Treatment. In 1919 a government report offered this conclusion as to the effect of Brazilian preferential treatment on United States exports. It found that the preferential treatment

> . . . . has been attended by a moderate measure of success. It has not succeeded in increasing the proportion of the Brazilian consumption of wheat flour which is provided by American mills, nor has it effected a substantial increase in the share of the Brazilian imports of wheat flour coming from the United States, but it has undoubtedly tended to check the decline which the economic situation was bringing about. The other preferred articles were less important, and even in the aggregate constituted only a small fraction of the total American exports to Brazil. The preference on these articles, however, had much more effect. In almost every instance the establishment of the preference was followed shortly by an appreciable increase in the American exports to Brazil, both absolutely and in relation to the total amount of Brazilian imports from all sources. The statistics indicate that the trade with Brazil in several articles, notable of these pianos and cement, practically owed its establishment to the influence of the preference. To some extent the growth of the trade with Brazil in the preferred articles was undoubtedly due to the effect of the special tariff treatment of American products in directing the attention of American exporters more closely to the Brazilian market. Another contributing factor was the general growth of American exports to Brazil which showed itself in the increased Brazilian import from the United States of articles upon which no reductions of duty at all were granted . . . .

The Tariff in 1940. In 1931 there was a tariff revision followed by others in 1934 and 1940. The executive was given the power temporarily to reduce or remove duties on goods which competed with those produced by Brazilian cartels or which sold at prices considered excessive. The same power was granted in the case of goods necessary to Brazilian consumption, yet not produced in a given region. Authority was also given to increase rates as much as 100 per cent on articles coming from countries discriminating against Brazilian exports by duties or other devices. Provisions were also included to combat dumping.

The three-column form was retained. The general rate exceeded the minimum rate by a little over 20 per cent. The tariff, which comprised 1,897 articles, was divided into five sections and subdivided into thirty-five classes. A single surtax was substituted for the multiplicity of minor customs charges and duties. At the end of 1939 the Ministry of Finance undertook to republish the tariff. The general tariff applied to the goods from all countries not having commercial agreements, while the minimum rates were accorded countries guaranteeing their minimum rates to Bra-

zilian exports. Conventional rates, in turn, rested on commercial agreements and were the result of unlimited most-favored-nation treatment and reciprocal tariff reductions. In recent years the tariff was supplying between 30 and 40 per cent of Brazilian revenue.

The Brazilian government levied export duties on coffee, salt, quartz crystals, skins and feathers of wild game, and various types of fruit. The rates were usually ad valorem in character and did not exceed 10 per cent. Export duties levied by the states comprising Brazil likewise persisted on practically all exports. These applied even to goods passing from one state to another because the practice forbidden by the Constitution in 1937 did not become unlawful until March, 1943. On various other occasions the export of some commodities has been prohibited entirely.

Treaties and Other Trade Agreements. In 1931, Brazil entered reciprocal trade agreements containing the most-favored-nation clause with thirty-one nations, including the United States. None was signed with Russia, however. At the end of 1935, all that had been concluded by January 1, 1934, were denounced, and new ones were negotiated later on with Argentina, Venezuela, Canada, Chile, and Paraguay.

In the reciprocal agreement with the United States, Brazil granted reductions on sixty-seven articles from the United States and bound thirty-nine against increase—the concessions ranging from 20 to 67 per cent of the existing rate. The United States bound eleven products, accounting for 90 per cent of our imports and reduced seven others. In 1939 the most-favored-nation treaties entered with Australia and the Union of South Africa made certain exceptions in recognition of British preference and Brazilian concessions with neighboring countries.

Dominating Factors in Brazilian Commercial Relations. Brazil, too, has been dominated by nationalistic ambitions. In 1907 she had 2,988 factories; but by 1935 she boasted 58,681.[5] In 1938 she decreed the nationalization of all the branches of the petroleum industry, placing the production, importation, distribution, and sale of crude petroleum under government regulation. This applied also to its derivatives as well as to the refining of imported petroleum. Under this decree, the selling prices (maximum as well as minimum) could be fixed on refined products whether processed domestically or imported. Companies entering this industry under government direction had to be owned by native-born Brazilians, and the management was to be confined to native-born as well. Companies not so organized were to be given six months to conform to this setup.

Just previous to this legislation, another law was passed prohibiting the absentee control of any Brazilian commercial organization other than corporations. Management of ventures in Brazil must be in the hands of per-

[5] *Commerce Reports*, December 2, 1939, p. 1128.

sons legally domiciled in Brazil. This latter classification is a matter of law rather than fact, in the sense that "residence" and "legal residence" are not the same—the latter involving in its determination all sorts of conformance to documentary and other requirements.

Commercial travelers are also subject to restrictions in a measure reminiscent of the "host" system in medieval times. Such a traveler is compelled to register within forty-eight hours after landing with the Brazilian Registry Service for Foreigners and to present a form letter from the consulate giving certain information. Lacking a certificate, the traveler cannot solicit business.

Another factor in her commercial relations has been a new emphasis on the standardizing and inspecting of goods intended for export in order to regain markets which had been alienated by extremes in quality and lack of uniformity of materials. In 1940 this inspection covered coffee,

TABLE 34

Brazilian Trade Relations, 1935–40*

Year	Exports Percentage to—							Imports Percentage from—						
	U.S.	U K	Ger	Jap.	Arg	Fr.	Italy	U S	U K	Ger.	Jap.	Arg.	Fr	Italy
1935	39.4	9 2	16.6	0 5	4 9	8.1	2 7	23 3	12 4	20.7	0.9	13 0	3 4	2.5
1936	38.8	11.9	13.2	4.3	4 1	7 4	3.3	22 2	11 2	23.5	1.2	16.4	2 9	1.8
1937	36.3	9 0	17.1	4.7	4 7	6 4	2.2	23.1	12.1	23.9	1.6	13 9	2.4	1.5
1938	34.3	8 8	19.1	4.6	4 5	6.4	2.1	24.2	10.4	25.0	1.3	11.8	3.2	1 8
1939	36.1	9 6	12.1	5.4	5.5	6.3	2.4	33.3	9.2	19.4	1.5	8.4	2 8	1 8
1940	42.3	17.3	2.3	..	7.8	..	2 2	51.9	9.4	1.9	..	5 4	.	1.1

* Commerce Reports; *Foreign Commerce Yearbook.*

cotton, cacao, caroa fiber, linseed, citrus fruits, oiticica, babassu kernels, maté tea, and Parana pine. Steps have also been taken to insure the buyers that exported goods will conform strictly to the samples shown.

Coffee has been the leading export crop of Brazil since 1830. In 1933, it accounted for over 70 per cent of the total value of Brazilian exports. It had declined to 39.1 per cent in 1939 and to 32 per cent in 1940. The second largest export, cotton, also declined, so that in 1940, for what is believed to be the first time in one hundred years, these combined crops came to less than 50 per cent of Brazil's total exports.[6] For 1940, 92 per cent of her exports to the United States were in the form of raw materials and unprocessed foodstuffs and 94 per cent of the imports from this country were manufactured and semimanufactured products.

Brazil also employs all of the familiar trade-control devices such as the textile law requiring the use by manufacturers of local fibers to the extent of 10 per cent of their operations and the milling law requiring the mixture of 5 per cent mandioca flour in domestic and imported wheat flour.

[6] International Reference Service, *Economic Conditions in Brazil* (Washington, D.C.: U.S. Government Printing Office, 1941) p. 9.

Brazilian Trade Relations. The United Kingdom dominated Brazilian import trade during the years 1910–14. But from that time onward her share declined steadily to 12.4 per cent in 1935 and to 9.2 per cent in 1939. Table 34 reveals how the sales of the United States rose, on the other hand, to 33.3 per cent in 1939 and to 51.9 per cent in 1940. Germany's sales declined from 1910 onward to a low of 8.9 per cent in 1932. From then on, they gained in importance and in 1938 constituted 25 per cent. In 1939, however, her share dropped to 19.4 per cent and in 1940 almost reached the vanishing point. These figures, of course, portray the war situation and probably will not be maintained after a postwar adjustment.

Brazilian exports, consisting mainly of coffee, cotton, hides, cacao, preserved and frozen meats, oranges, oil seeds and kernels, have regularly gone to the United States in such large quantities as to give her the title of best customer for well over half of a century. In the years 1938–40 the influence of the war can be noted in the rise of the shares reaching the United States (from 34.3 per cent to 42.3 per cent) and the United Kingdom (8.8 per cent to 17.3 per cent) and the decline of that reaching Germany (19.1 per cent to 2.3 per cent).

United States–Brazilian Trade Viewed Quantitatively. Tables 35 and 36 are intended to give some idea of the articles entering the trade of the United States and Brazil in terms of physical measure rather than in value figures. Our exports to Brazil are much the same as those to Argentina—manufactured products, structural materials, and chemicals. Some agricultural products are sent as well, but they are relatively unimportant. Our imports from Brazil are of the type that an agricultural country with a hot climate might be expected to send to a country with a temperate climate—coffee, rubber, hard woods, cocoa, hides, and so on.

Recent Developments in Brazil. In 1941, Brazil and Chile reached an agreement for lowering tariff rates, and two years later joined in appointing a permanent mixed commission to stimulate production and trade between the two countries. In 1942 the office of the Co-ordinator of Economic Mobilization was created. It constituted a wartime means of continuing the activities undertaken in 1939 by the National Economic Defense Council, which had enjoyed broad powers for fostering export markets, concluding barter agreements, and controlling exports and imports in such a way as to assure adequate supplies for basic industries. The Co-ordinator of Economic Mobilization, who was responsible directly to the President, had many powers. Those of concern to international trade covered export and import operations through the control of a number of existing agencies, namely, the National Petroleum Council (organized in 1938 for the import, export, transportation, and marketing of that product); the Sugar and Alcohol Institute (organized in 1933 for the control of sugar production, pricing, and export); the National Coffee Department (1933); the National Maté Institute (organized in 1938 to regulate

TABLE 35

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO BRAZIL, 1938–40*

Commodity	Unit	Quantity		
		1938	1939	1940
Malt	1,000 bu.	1	105	333
Hops	1,000 lbs.	67	240	415
Pears, fresh	"	4,717	6,301	5,993
Wheat flour	1,000 bbls.	38	45	71
Rosin	Bbls.	63,180	74,305	57,684
Wood pulp	Short tons	2,228	11,543	32,907
Bituminous coal	1,000 long tons	182	379	929
Crude petroleum	1,000 bbls.	1	173	250
Kerosene	"	401	415	227
Motor fuel	"	1,452	1,272	814
Lubricating oil	1,000 lbs.	243	302	313
Gas oil	1,000 bbls.	434	180	161
Colors, dyes, and stains	1,000 lbs.	177	279	439
Steel sheets, galvanized	"	10,235	16,026	21,246
Tubular products and fittings	"	6,053	17,307	50,424
Iron and steel bars and rods	"	10,239	19,053	34,143
Other than concrete reinforcement	"	8,634	13,346	25,459
Plates, not fabricated, unalloyed	"	11,877	17,456	26,266
Iron and steel sheets	"	39,593	66,659	69,650
Structural shapes	Long tons	3,069	5,476	13,416
Wire and manufactures	1,000 lbs.	35,241	43,605	49,725
Rails	Long tons	9,282	18,001	47,511
Tin plate and taggers tin	1,000 lbs.	26,242	87,582	127,375
Refined copper	"	3,479	7,539	10,434
Sewing machines	Number	4,634	9,739	16,269
Typewriters	"	8,120	12,555	13,969
Accounting and calculating machines	"	2,242	3,033	2,859
Air compressors	"	234	378	345
Tractors	"	460	565	188
Household electric refrigerators	"	12,042	10,927	14,048
Steam locomotives	"	....	8	25
Freight cars	"	355	....	1,090
Land planes	"	45	91	71
Merchant vessels	"	....	3	12
Motor trucks, busses, and chassis	"	4,580	6,194	5,523
Passenger cars and chassis	"	6,523	6,506	8,198
Automobile engines	"	5,462	8,183	8,257
Automobile tires (casings)	"	64,158	96,352	58,123
Corded tire fabric	1,000 sq. yds.	310	438	2,546
Caustic soda	1,000 lbs.	20,304	38,297	24,913

* Selected from "Trade of the United States with Brazil in 1940," *International Reference Service*, Vol. I, No. 51 (August, 1941).

prices and to fix export quotas); the National Pine Institute (organized in 1941 to regulate exports and imports); the Cacao Institute (organized in 1931 for marketing and fixing export standards); the National Tobacco Institute (organized in 1943 as a monopoly in charge of the export of tobacco products); the Federal Foreign Trade Council (organized in

TABLE 36

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM BRAZIL, 1938–40*

Commodity	Unit	Quantity		
		1938	1939	1940
Canned beef	1,000 lbs.	14,594	17,885	20,038
Cattle hides	1,000 pieces	172	369	619
Sheep and lamb skins	"	791	1,566	1,410
Goat and kid skins	"	2,824	4,929	3,794
Deer, buck, or doe skins	"	231	308	301
Wool, unmanufactured	1,000 lbs.	170	409	2,606
Brazil nuts	"	28,363	32,312	40,266
Cotton linters	"	618	7,792	35,888
Cottonseed oil	"	52,002	23,022	11,360
Cocoa or cacao beans	"	185,405	203,805	180,303
Coffee	"	1,200,253	1,230,624	1,099,142
Bran, shorts, etc.	Tons	....	32,077	39,709
Castor beans	1,000 lbs.	113,030	161,927	163,117
Babassu nuts	"	50,827	113,837	98,273
Crude rubber	"	7,316	10,518	12,527
Crude beeswax	"	815	1,754	1,574
Carnauba wax	"	12,344	16,352	16,926
Rosewood oil	"	158	238	284
Oiticica oil	"	5,301	18,867	15,537
Cabinet wood, mahogany	M ft.	4,320	4,213	5,542
Manganese ore	1,000 lbs.	29,808	43,678	172,765
Iron ore	1,000 tons	10	17	99
Brazilian pebble	1,000 lbs.	56	67	127
Diamonds, rough or uncut	Carats	...	5,846	3,436
Diamonds, glaziers' and engravers'	"	93,273	180,624	275,720

* Selected from "Trade of the United States with Brazil in 1940," *International Reference Service*, Vol. I, No. 51 (August 1941).

1934 and consisting of ten councilors and five technical advisers appointed by the executive and having advisory and consultative powers in matters affecting foreign trade).

In recent years the Brazilian government has felt the pressure of young industries, especially those that started during World War II. This pressure if it runs true to form may be looked upon as a conditioning force in future commercial policies. Already such pre-war duties as had been lifted during the war have been restored and the export of over forty classes of commodities, covering many separate items considered of prime importance to Brazilian economy have been prohibited.

CHILE

Commercial Significance of Nitrates. The significance of Chile in international relationships is inseparable from the sodium nitrate industry. This industry began about 1831 but did not become important until a half-century later. Then it was that the government imposed an export tax on

nitrates. By 1930 the proceeds came close to $1,000,000,000 in revenue. This income made the problems of public finance in Chile comparatively simple, since each year it averaged close to half of the total revenue. In 1894, 68 per cent of the revenue came from this export tax. Its collection was easy, and the problem of mining and selling the nitrates fell largely on the non-Chilean interests (British and Spanish) which operated the mines.

The first threat to this state of affairs came during World War I, when the fixation of nitrogen constituted a new source of this indispensable product. The export of nitrates which had accounted for three-fourths of all Chilean exports began to drop. By 1938 it accounted for a little over 20 per cent.

Copper. Copper exports, which had been 5 per cent before World War I, moved into first place and accounted for about half the exports. This return of copper to primary importance is of interest because, from the time the first reverberatory furnace was set up in 1842, Chile became the leading copper-producing country of the world. She maintained that lead until displaced by the United States forty years later. In 1844 the year Chilean records begin, the export value of copper was six times that of all the principal farm and animal products. Statistics show, however, that nitrates assumed the lead in 1881 and maintained it until 1932. In the following year, nitrate mining was made a state monopoly. This series of changes in Chilean economy brought on critical times: [7]

> In the following year [1928] Chile saw nine governments . . . . , two general strikes, one fleet mutiny, various and sundry insurrections, and more arrests of deputies, exilings of politicos, suppressions of newspapers, and conspiracies of army officers than it had seen in its long and orderly history. Mining production dropped in 1932 to a quarter of the 1927–29 average. Forty-two automobiles came in as against better than 10,000 in 1929. Unemployment reached 125,000, out of a total working population of a million and a third. The peso let go of gold and dropped to sixty-four to the dollar. And Chile's share of the world's consumption of nitrogen in all forms fell to approximately one-twelfth of the total.[8]

Chilean Tariffs. The importance of mining, accordingly, was such as to overshadow agriculture and industry throughout Chilean history, but this did not prevent the imposition of protective tariffs. The act of 1898, for example, placed a duty of 60 per cent on Indian corn and oats and

[7] Chilean nitrate sales to the United States fell from an average of $65,651,000 for the war years 1914–18 to $32,497,000 for the years 1921–25. Our import figures for 1932 came to only $1,444,000. They since have risen above the ten million dollar mark. "Foreign Trade of Chile," *Foreign Commerce Reports*, March 18, 1939, p. 258.

[8] Taken from series of seven articles on South America appearing in *Fortune* magazine beginning with the issue of December, 1937.

specific rates on barley and wheat flour (the basis being an arbitrary official valuation). These commodities had hitherto been free. Other goods were classified on the basis of the duty imposed. The classification included goods subject to 60, 35, 15, and 5 per cent, as well as some specific duties and a free list. The act of 1908 enumerated 3,243 classes of imports —that of "Perfumery, Pharmaceuticals and Chemical Products" accounting for 912 items.

The tariff of 1916 was in the form of eleven schedules, 1,729 items:

1. Animal materials
2. Vegetable materials
3. Mineral materials
4. Textile materials
5. Industrial oils, bitumens, combustibles, and paints
6. Paper, cardboard, and their manufactures
7. Beverages and liquors
8. Perfumery and pharmaceutical products and their accessories and supplies and chemical products
9. Machinery instruments, tools, apparatus, etc.
10. Arms, ammunition, and explosives
11. Miscellaneous

The tariff contained no separate free list but indicated the items to be admitted without duty in the body of the tariff under the schedule to which they belonged. The law abolished the old official valuation system, provided for a minimum tariff for those countries extending the most-favored-nation treatment, and gave the executive the right to raise rates 25 per cent, thus forming a maximum tariff.

The Present Tariff. The tariff in effect today is that of 1928 with its subsequent amendments, especially that of 1932. The executive's powers were greatly enlarged. A minimum tariff is applicable to all countries according Chile the most-favored-nation treatment, while rates can be increased up to 50 per cent against other countries. Goods may be removed from the free list and subjected to a rate of 15 per cent as well. A special protective rate is authorized on commodities considered "analagous" to those produced locally in adequate volume. This rate can constitute an increase of as much as 35 per cent over the regular duty.

Provisions for commercial agreements reducing tariffs in return for concessions was made by the law of March 10, 1933, and, although such agreements are subject to legislative approval, they may be made effective for one year, pending such action. This provision overcomes one of the gravest criticisms of legislative ratification in the realm of trade agreements, namely, delay in a field where give and take and bargaining call for quick action. The United States and Chile have not entered a recip-

rocal trade agreement, although a most-favored-nation agreement, renewable annually, has served as a basis for trade between them.

Dominating Factors in Chilean Commercial Relations. In common with other Latin-American countries, Chile employs quotas, exchange controls, compensations and clearing agreements, and other restrictions. Since 1935, a government-sponsored company has been engaged in the distribution of petroleum products. In addition, there has been a fair amount of legislation brought on by the depression and world events.

In 1932, for example, Chile enacted a law, entitled "The Law Governing Overproduction." The President is given authority, when requested by producers in a given industry, to declare a state of overproduction. For the duration of the declaration no new factories can be opened nor existing ones expanded without authorization—a "factory" being defined as an industrial establishment employing more than five persons and having a physical plant in excess of 10,000 pesos. The Chilean government has assumed determination of quantities and price. In accordance with the decree of the Commissariat of Prices in 1939, for example, the prices existing on August 25 were to be the prevailing prices, no change to be made without its approval. Later on, authority to close businesses failing to comply was given the commissariat. In the same year, the President was authorized to regulate or to prevent the transfer of property to non-Chileans, to prohibit the establishment of competing establishments, and to exert great authority over industry. Another proposal under consideration at the same time sought to limit retail trade to Chileans, exception being made in the case of foreigners holding licenses issued prior to July, 1939.

Chilean economy turns on the mining industry, which is largely foreign controlled. Chile is the chief coal-producing country of Latin America, and this product is subject to high protective duties. In addition to iron, Chile produces gold, silver, manganese, cobalt, molybdenum, borate of lime, salt, lead, aluminum, bismuth, mercury, mica, zinc, and sulphur.

Household products for the Chilean population of 5,000,000 are produced at home in a multitude of small ventures. Besides mining, agricultural and pastoral occupations are the chief source of wealth. Chile employs some export taxes, the most recent imposition being on beans, chickpeas, kidney beans, lentils, and vetches. The proceeds are used to fight plant diseases. The tax on nitrates was removed in 1934.

In addition to compensation agreements with Germany whereby the latter became an important market for nonmineral exports, Chile had entered conventions with Belgium and Peru. The latter provides for an operating agreement to be supervised by the Chilean-Peruvian Permanent Mixed Commission. Chile has been granted concessions on coal, entire hides with hair, garlic, starch, glass demijohns, bran, chili, knitting ma-

chines, and sewing and embroidering machines. Peru has also undertaken not to place Chilean corned beef in a disadvantageous situation as compared to that of other countries. The concessions given Peru provide free entry of preserved fruits, marmalades, and jellies, and a reduction of one-half on strong glue, phonographs, dried cured potatoes, sauce, pickles, locks, brushes, and waterproof wax preparations.

Chilean Trade Relations. From 1873 to 1915 the United Kingdom was Chile's best customer, buying from 50 to 74 per cent of total exports. Since 1915, the United States and the United Kingdom have alternated that position. Germany purchased only 1 per cent of Chilean exports in 1873, 12 per cent in 1900, and 20.2 per cent in the period 1910–14. In recent years the United States has moved into the position of best customer except in 1938 when the United Kingdom once again displaced her.

TABLE 37

CHILEAN TRADE RELATIONS, 1933–40

Year	Exports Percentage to—									Imports Percentage from—							
	U.S.	U.K.	Ger.	Arg.	Bel.	Fr.	It.	Jap.	Swe.	U.S.	U.K.	Ger.	Arg.	Fr.	It.	Jap.	Peru
1933	19.9	24.3	6.5	3.1	3 4	2.0	7.2	1.3	3.2	22.5	12.2	11.4	10.5	6.2	2.5	1.1	14.2
1934	20.9	22.8	5.0	1.7	2.8	1.6	3.9	0.3	2.5	28.8	23.2	10.2	2.5	3.8	2.3	3.5	8.8
1935	23.0	17.5	7.1	1.4	1.9	2.8	1 6	0.8	2.3	27.1	18.9	20 0	3.1	1.2	1.5	3.7	7 2
1936	19.5	16.4	9.7	1.8	..	6.0	4.4	1.5	.	25.4	13.1	28.7	2.8	1.9	1.6	2.9	7 0
1937	22.5	19.6	9.5	1 2	6.0	4.9	4.6	1 6	3.8	29.1	10.9	26 0	4.3	1.9	1.9	2.6	8.1
1938	15.7	21.8	10.0	1.5	7.7	4.4	4.0	1.6	3.1	27.8	10.6	25.7	4.3	2.0	2.7	2.5	5 8
1939	30.5	12.3	8.4	1.9	4.5	4.7	3.7	1.8	4.6	31.1	8.3	22.7	4.4	2.3	3.9	3.8	7.5
1940	58.3	5 8	..	2.7	..	..	..	..	..	47.9	10.4	...	6.7	..	..	..	8.4

Germany occupied third place from 1934 until World War II. Argentina has been the largest Latin-American customer, although her purchases constitute less than 2 per cent of Chilean sales. (See Table 37.)

Since 1915, except for the year 1936, the United States has been Chile's largest source of supply. The United Kingdom had previously enjoyed this position, but her share, which amounted to 31.7 per cent (1909–13), declined to 8.3 per cent in 1939. The German position is of interest. Germany had virtually no share of the Chilean market in 1919, but her sales to Chile rose steadily and actually gave her the position of most important supplier for the single year 1936.

United States–Chilean Trade Viewed Quantitatively. The principal exports from the United States to Chile and the chief imports from Chile which can be expressed in terms of physical units are shown in Tables 38 and 39. Every item enumerated represents the sum of $250,000 or more for the year 1940. Our exports to Chile follow the pattern of Argentinian and Brazilian trade—manufactured items such as automobiles and structural materials. Our imports from Chile differ sharply, however. They are essentially minerals—iron, copper, lead, and the nitrates.

TABLE 38

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO CHILE, 1938–40*

Commodity	Unit	Quantity 1938	1939	1940
Raw cotton	Bales	12,141	11,539	10,106
Cotton yarn	1,000 lbs.	2,740	2,560	2,336
Wood pulp	Short tons	568	93	9,921
Osnaburgs	1,000 sq. yds.	8,740	6,093	5,330
Bags of jute	1,000 lbs.	72	1,530	7,953
Bituminous coal	Long tons	..	4	178
Gas oil and fuel oil	1,000 bbls.	2,546	2,184	2,290
Lubricating oil, red and pale	"	25	47	38
Colors, dyes, and stains	1,000 lbs.	11	35	433
Tin plate and taggers tin	"	6,529	18,306	18,663
Steel ingots, blooms, and billets	Long tons	2,160	2,976	8,218
Iron and steel bars other than concrete reinforcement	1,000 lbs.	11,568	18,157	41,070
Plates not fabricated, unalloyed	"	10,364	10,862	11,809
Black steel sheets, unalloyed	"	8,933	24,529	32,488
Structural shapes	Long tons	4,198	4,286	5,212
Tubular products and fittings	1,000 lbs.	7,011	5,811	15,973
Rails	Long tons	12,296	603	2,838
Wire and manufactures	1,000 lbs.	15,250	19,781	36,322
Insulated copper wire and cable	"	851	612	1,177
Typewriters	Number	3,545	4,316	5,927
Steam locomotives	"	7	...	10
Tractors	"	147	207	577
Motor trucks, busses, and chassis	"	1,226	1,611	1,487
Passenger cars and chassis	"	1,079	1,036	1,243
Automobile tires (casings)	"	23,039	37,232	36,718
Rubber belts and belting	1,000 lbs.	265	407	635
Blasting caps	Thousands	4,837	6,394	13,556

* Selected from the "United States Trade with the Latin American Republics," *International Reference Service*, Vol. I, No. 25 (May, 1941); "Trade of the United States with Chile in 1940," *International Reference Service*, Vol. I, No. 57 (August 1941).

TABLE 39

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM CHILE, 1938–40*

Commodity	Unit	Quantity 1938	1939	1940
Iron ore	1,000 long tons	1,578	1,587	1,683
Copper ores	1,000 lbs.	130,530	141,403	340,157
Lead ores, flue dust, pigs, bars	"	178	605	8,996
Sodium nitrate	1,000 long tons	576	604	664
Potassium-sodium nitrate mixtures	Long tons	40	49	49
Iodine	1,000 lbs.	571	200	1,244
Sheep and lamb skins	1,000 pieces	282	516	727
Combing wool, finer than 40's	1,000 lbs.	6	305	1,709
Lentils	"	8,299	4,792	9,775

* Selected from "United States Trade with the Latin American Republics," *International Reference Service*, Vol. I, No. 25 (May, 1941); Vol. I, No. 57 (August, 1941).

Recent Developments in Chile. In 1942 a most-favored-nation treaty was entered with Mexico for one year, but it has been renewed annually since that time. In 1943 a similar treaty was signed with Brazil. A treaty with Peru provided for tariff concessions, while another agreement dealt with a proposed commission to study the possibility of free trade between the countries. Other commercial treaties were entered with Spain, the United Kingdom (a temporary most-favored-nation treaty to run until June 30, 1947), while negotiations for a reciprocal most-favored-nation treaty were undertaken with Belgium. In 1943 an additional duty of 15 per cent was imposed on the duty-paid value of products classified as "dispensable." This was followed in 1944 by the free entry of machinery needed for new industries not similar to any already established or required by those producing commodities in quantities still below domestic needs. In 1945 tariffs were again increased by 60 per cent through the changing of the paper-peso surcharge from 300 per cent to 540 per cent of the duty, making the total rate 640 per cent of the base rate instead of 400 per cent. This situation has been met with in countries with depreciated paper currencies.

MEXICO

Early Conditions. The United States commissioners who visited Mexico in the early eighties reported that the tariff of that country was so high that a lucrative smuggling had grown up wherein the profits were often equal to the cost of the goods at the customhouse; also, that the officials seemed to wink at the practice and allowed the German merchants a better chance at this than the English or those from this country. They reported also that the "foreign business of Mexico is very considerably in the hands of Germans." They found only one English house of any importance in Mexico City. There was none operated by any citizen of the United States.

Mexican Nationalism after 1910. Much of Mexico's international commercial policy is tied up with her determination to develop internally. From the time of the revolution in 1910, this goal has been a part of Mexican thought. The constitutional basis for it was laid in 1917. Political and economic conditions, as well as the official disapproval of certain implications of that constitution concerning the rights of foreigners and their property, prevented much from being attempted. With the advent of Lazaro Cardenas as President in 1934, however, a six-year plan was set in motion. This was followed by a second six-year plan for the years 1941–46. The program called for agrarian reform; up-to-date labor legislation; the nationalization of the country's mineral resources; a greater degree of government influence and control in industry, agriculture, and commerce; an emphasis on self-sufficiency and less dependence on foreign

markets; the development of small- and medium-sized industries in preference to large-scale production; fewer foreign-controlled firms; and the development of a merchant marine. In brief, Mexico launched the program of "Mexico for the Mexicans."

The principal means to be employed were the expropriation of large agricultural and mineral properties, an adjustment of tariffs, the organization of corporations under the control of the state, the limitation of new mining concessions to Mexican citizens, the control of credit and prices, as well as a number of other projects of more or less internal concern.

The plan has materialized to the extent that there are today a large number of enterprises controlled by the government including an oil company, sugar mills, the silk and artifical silk industries, a life insurance company, a paper-manufacturing concern, a co-operative engaged in the production of plows, and a cinematographic institute for the production and distribution of films. Various laws have given preferential treatment to these activities. The paper company has grown on a diet of special tariff protection and freight rates. The insurance company grew apace with the disappearance of most of the foreign insurance companies. Government influence in banking has increased with the financing of the National Foreign Trade Bank. The government has likewise expropriated the national railroads of Mexico.

The Oil Expropriation. Of far-reaching international significance, both as an event and as a forerunner of similar events which might come not only in Mexico but in Latin America generally, was that part of the "Mexico for the Mexicans" program which led to the expropriation of oil lands held by the United States and British concerns. These holdings were said to represent 95 per cent of the oil land of Mexico. It has raised questions regarding basic raw material supplies, as well as the fate of capital invested in foreign countries.

In the Mexican Constitution of 1917, there was a provision that "in the nation is vested direct ownership of petroleum." Months before its adoption, this country had raised informally the question as to its possible effect on the property of United States companies—property which had been obtained largely between 1884 and 1917. Assurance was given that the provision would not be retroactive. But some five weeks after its adoption, our Secretary of State, Mr. Lansing, found it necessary to warn the Mexican government that

> the Government of the United States has noted with grave concern evidences of an intention on the part of the Mexican government to give certain provisions of the Constitution . . . . retroactive application to the rights of foreign owners of property in Mexico, to the extent of destroying or impairing those rights.
>
> This amounts to confiscation, and to this the Government of the United States cannot consent because, as the Mexican government has already been

informed by the Government of the United States, it cannot acquiesce in the direct or indirect confiscation of American-owned properties or discrimination against American citizens with reference to their legally acquired rights and interests in Mexico.

Between 1917 and 1921 a score of messages, diplomatic interviews, and conversations passed between Washington and Mexico City. The gist of each interchange was about the same—the view of the United States being that nothing of a retroactive nature would be tolerated and the Mexican, that nothing retroactive was being considered. Secretary of State Hughes again stated the case unmistakably on June 7, 1921:

> The fundamental question which confronts the Government of the United States in considering its relations with Mexico is the safeguarding of property rights against confiscation. Mexico is free to adopt any policy which she pleases with respect to her public lands, but she is not free to destroy without compensation valid titles which have been obtained by American citizens under Mexican laws. A confiscation policy strikes not only at the interests of particular individuals, but at the foundations of international intercourse, for it is only on the basis of the security of property validly possessed under the laws existing at the time of its acquisition, that commercial transactions between the peoples of two countries and the conduct of activities in helpful cooperation are possible.
>
> This question should not be confused with any matter of personalities or of the recognition of any particular administration. Whenever Mexico is ready to give assurances that she will perform her fundamental obligation in the protection both of persons and of rights of property validly acquired, there will be no obstacles to the most advantageous relations between the two peoples.
>
> This question is vital because of the provisions inserted in the Mexican Constitution promulgated in 1917. If these provisions are to be put into effect retroactively, the properties of American citizens will be confiscated on a great scale. This would constitute an international wrong of the gravest character and this government could not submit to its accomplishment.

The Supreme Court of Mexico in the same year had laid down the principle that this provision of the Constitution was not retroactive in effect. But even then the controversy was not settled. It smouldered to break into flame at the end of 1925, when the Calles government attempted to substitute for the legal titles of owners and lessees of oil-bearing property "confirmatory concessions" of fifty years' duration. Two years of argument caused Mexico to back down, although the policy of confirmatory concessions of indefinite duration was recognized. Thus, the Petroleum Law Amendment of 1927 and the Morrow-Calles Agreement seemed to bring matters to an end. Once, again, the United States and English investors felt fairly secure.

But subsequently affairs reached a crisis. Long delays in issuing confirmatory concessions, the application of the labor code to hamper the indus-

try, and the activity of the justices of the new Supreme Court whose tenure had been reduced from life to six-year terms laid the basis for what Mexico has called "expropriation" and others have named "confiscation." The steps immediately preceding the expropriation were these—a demand on November 3, 1936, by the Syndicate of Petroleum Workers for higher wages and social welfare benefits, an unsuccessful attempt to reach an agreement (December, 1936–May, 1937), a strike on May 27, its submission to the Federal Conciliation Board, and the resumption of work. A decision in favor of the union was handed down December 28, 1937. The companies then carried an appeal to the Mexican Supreme Court, which decided in favor of the union on March 1, 1938. This decision was "announced" eight days earlier by Lombardo Toledano, the radical labor leader. It was likewise "announced" six days before by the President of Mexico. On the day of the decision, one of the justices termed the verdict "a political convenience." On March 16 the union asked that the labor contract be terminated. The board granted the request two days later. On the same day, all foreign-controlled oil properties were expropriated by executive decree. The next day the Administrative Council of Petroleum assumed charge.

On July 21, 1938, Secretary of State Hull sent a note to Mexico, a portion of which read:

> If it were permissible for a government to take the private property of the citizens of other countries and pay for it as and when, in the judgment of that government, its economic circumstances and its local legislation may perhaps permit, the safeguards which the constitutions of most countries and established international law have sought to provide would be illusory. Governments would be free to take property far beyond their ability or willingness to pay, and the owners thereof would be without recourse. We cannot question the right of a foreign government to treat its own nationals in this fashion if it so desires. This is a matter of domestic concern. But we cannot admit that a foreign government may take the property of American nationals in disregard of the rule of compensation under international law. Nor can we admit that any government unilaterally and through its municipal legislation can, as in this instant case, nullify this universally accepted principle of international law, based as it is on reason, equity and justice. . . .
>
> The whole structure of friendly intercourse, of international trade and commerce, and many other vital and mutually desirable relations between nations indispensable to their progress rest upon the single and hitherto solid foundation of respect on the part of governments and of peoples for each other's rights under international justice. The right of prompt and just compensation for expropriated property is a part of this structure. It is a principle to which the Government of the United States and most governments of the world have emphatically subscribed and which they have practiced and which must be maintained.

Other notes followed. The Mexican government was again upheld by the Mexican Supreme Court on December 2, 1939. The gist of the decision was this: (1) that the oil companies' rights to explore for and extract oil in Mexico were not private property for which payment had to be made, subsoil petroleum having become the property of Mexico under the Constitution of 1917; (2) that the surface owner has no property right until he reduces it to possession; (3) that although expropriation usually implies the payment in cash, in the case of a large expropriation, payment may be deferred in the interest of the nation—even over a ten-year period as provided in the Expropriation Law of 1936; (4) that the payment might even be made out of the proceeds of the oil subsequently produced; (5) that the state as a sovereign power is not bound by constitutional limitations; and (6) that compensation is fair which covers legitimate investment in production wells, real estate at tax values, and installations at cost.

In August, 1940, two experts appointed by the Mexican court reported on their valuation of foreign properties, both United States and British, as a basis for compensation. They set figures of $34,546,000 and $36,258,000. The oil industry gave figures running from $200,000,000 to $450,000,000. United States interests represent about 40 per cent.

Events in Europe, together with the emphasis on hemisphere solidarity, undoubtedly helped to hasten plans for settlement. The fact, too, that most of Mexico's foreign trade is with the United States and that this trade was increasing rapidly also played an important part. An impending loan of $30,000,000 from the Export-Import Bank for highway construction likewise helped. But equal to any other factor was the adherence by the United States to the good-neighbor policy. In the face of a genuine grievance of great proportions, we had made no threats; we had sent no marines. Early in September, 1941, President Manuel Avila Camacho, in a three and one-half hour address opening the Mexican Congress, predicted the settlement of the problem. On November 19 an announcement was made by the Minister of Finance that an agreement had been reached. Experts agreed upon a gross compensation of $23,995,991.[9]

Other Minerals. In 1939, Mexico also placed all potassium salts and phosphate rock deposits not covered by concessions in the national reserves. This means that they cannot be subjected to private explorations. Deposits lying beneath privately owned property are also included.

The Mexican Tariff. The Mexican tariff has always been a high one and has also been the leading means of controlling imports. It has been a

[9] In July, 1942, the Mexican Supreme Court unanimously ordered the return of two expropriated properties to Standard Oil of New Jersey on the technicality that they had not been named in the original expropriatory decree. About 1,500,000 acres are represented. In September, 1943, a final agreement provided that all claims would be paid by September 30, 1947.

single-column tariff applied to all nations whether having most-favored-nation agreements or not. In keeping with other Mexican policies, the authority over the tariff by the executive is great.

The present tariff made up entirely of specific rates was established in 1930. It has undergone a number of changes. A presidential decree of July 22, 1937, raised rates (ranging from 3 to 100 per cent) on over 40 tariff classifications involving some 633 items. Rates on 11 items were reduced by amounts ranging from one-tenth to one-half. Another decree, dated December 31, 1937, increased rates on 218 classifications, or about one-third of all the items in the tariff. Most of the rates were doubled. These rates were to be in effect temporarily from April 30, 1938, but provision was made for their subsequent reduction. Reductions came in August, when 189 tariff items were put back to pre-existing levels or even lower ones.

In subsequent decrees, rates on synthetic fibers and yarns, alcoholic beverages, shawls, copper wire, and cable were raised. In the spring of 1940, new tariff classifications were established, but rates remained for the most part unchanged. As a part of the national policy to encourage industry, a law was passed in 1940 exempting for a period of five years new industrial enterprises from customs duties, export duties, income taxes, stamp taxes, and related burdens.

Export Duties. Mexico has employed export duties for a long time. In 1939, a new assessment system and classification was adopted covering some 225 items out of more than 1,200 listed on its export schedule and levying specific rates on them. Included are live animals, various animal and fish products, hides and skins, chickpeas, beans, rice, barley, corn, wheat, coffee, certain nuts, hemp, linen, wool, jute, aromatic and other woods, oleaginous seeds, crude petroleum and certain of its derivatives, mineral waxes, paraffin, mercury, waste metals, and electric locomotives. Occasionally, an extra export duty is imposed to raise funds for the government's social improvement program and for the payment of subsidies for the import of essential commodities.

Other Encouragements to Industry. In addition to the use of the tariff, industry is encouraged during periods of overproduction through laws prohibiting the importation of goods for periods of time and the machinery used in their manufacture. After 1937, no machinery for weaving or knitting silk and rayon could be imported except on permits from the Ministry of National Economy. On the other hand, new industries are fostered by exempting them from taxation and permitting their equipment and materials to enter free of duty. A new company for the manufacture of sewing machine parts and accessories was recently exempted from all taxes for a five-year period. The same period of exemption was granted manufacturers of plywood and electric irons.

Most-Favored-Nation Clause. Mexico has had unconditional most-favored-nation treaties with Brazil, Ecuador, the Dominican Republic, El Salvador, France, Italy, Spain, and Japan, as well as barter agreements with Italy (oil for rayon), and with Germany and Japan.

Dominating Factors in Mexican Commercial Policies. Mexico's position as the world's greatest silver producer has given her concern as the price of silver has fluctuated. Between 1933 and 1935 the New York price rose from 44 cents an ounce to 81 cents. The next year it fell to 44 and 45 cents. From January 6, 1936, to March 31, 1938, our government bought practically all the newly mined silver of Mexico. Purchases have fluctuated since that time, but they have been substantial.

Mexico also produces a large number of other minerals. Minerals account for 75 per cent of her exports. They include lead, petroleum, copper, iron, zinc, tin, mercury, antimony, bismuth, tungsten, molybdenum, manganese, cadmium, selenium, arsenic, graphite, platinum, and gold. Bananas constitute another major part of Mexican exports. United States investments are found largely in these ventures and amount to something less than $500,000,000.

TABLE 40

MEXICAN TRADE RELATIONS, 1933–39

Year	Exports Percentage to—					Imports Percentage from—				
	U S.	U K.	Ger.	Jap	Fr.	U S.	U K.	Ger.	Jap.	Fr.
1933	47.9	22.0	7.5	.2	4.4	59.9	8.9	12.0	0.6	6.7
1934	52.5	20.5	6.4	1.1	3.1	60.6	10.8	10.3	0.9	5.0
1935	62.8	10.1	7.0	1.6	2.3	65.3	5.8	11.9	1.1	3.9
1936	60.8	8.8	10.6	2.4	2.1	59.5	5.1	15.2	1.6	3.6
1937	56.2	11.0	9.4	1.1	2.4	62.2	4.7	16.1	1.8	3.3
1938	67.4	9.4	7.7	0.4	2.3	57.7	4.1	18.8	1.8	4.0
1939	74.2	5.8	5.6	1.0	1.6	66.0	2.6	12.7	1.2	3.7

Thus, it can be seen that the Mexican commercial policies are somewhat torn between the desire to be self-sufficient and the necessity for exporting raw materials and importing finished goods. There is likewise marked dependence on the United States by all Mexican economy.

Mexican Trade Relations. The United States has been Mexico's largest market. Almost three-fourths of her exports came to this market in 1939 and almost 90 per cent in 1940. The United Kingdom, Germany, and France have become relatively less important in recent years. The United States has likewise been Mexico's chief source of supply, accounting for about 60 per cent or more of all Mexican imports. By 1940 the share reached 80 per cent. Germany held second place. The United Kingdom and France have not been important sources. These facts may be seen in Table 40.

TABLE 41

Some of the Principal United States Exports to Mexico, 1938–40*

Commodity	Unit	Quantity		
		1938	1939	1940
Lard	1,000 lbs.	7,234	10,486	22,958
Barley	1,000 bu.	69	104	509
Hops	1,000 lbs.	280	263	608
Wood pulp	Short tons	935	5,206	29,484
Wrapping paper, etc.	1,000 lbs.	4,540	11,680	14,706
Wool noils and waste	"	....	97	956
Boards, planks, scantlings	M ft.	14,956	17,891	18,329
Box board	1,000 lbs.	9,855	14,051	9,438
Rubber hose and belting	"	661	947	876
Colors, dyes, and stains	"	435	640	1,212
Motor fuel	1,000 bbls.	238	366	445
Residual fuel oil	"	895	351	948
Lubricating oil	"	87	99	102
Refined paraffin wax	1,000 lbs.	8,972	9,508	10,692
Tin plate and taggers tin	"	19,368	36,304	33,084
Tin cans	"	3,473	3,648	3,268
Copper, refined, and insulated copper wire	"	2,615	3,446	6,691
Steel sheets, galvanized	"	3,989	4,997	7,277
Concrete reinforcement bars	"	250	279	13,734
Other iron and steel bars	"	1,411	1,287	7,569
Plates not fabricated, unalloyed	"	3,971	10,055	7,213
Black steel sheets, ungalvanized, unalloyed	"	22,803	45,904	52,092
Iron and steel scrap	Long tons	21,301	37,057	37,556
Tubular products and fittings	1,000 lbs.	17,300	39,330	39,904
Wire and manufactures	"	8,873	15,446	17,158
Car wheels, tires and axles	"	3,217	7,164	6,016
Motor trucks, busses, and chassis	Number	1,610	3,425	4,418
Passenger cars and chassis	"	2,845	6,089	8,976
Automobile tire casings	"	17,747	37,128	46,251
Tire fabric	1,000 sq. yds.	1,585	2,146	2,084
Railway freight cars	Number	448	541	408
Household refrigerators	"	1,926	4,835	6,941
Radios	"	34,508	61,718	82,796
Typewriters	"	4,094	8,625	10,788
Tracklaying tractors	"	154	250	202
Internal combustion engines	"	770	1,019	1,185
Land planes	"	58	65	62
Aluminum foil	1,000 lbs.	5	245	679
Ready-mixed paints	1,000 gal.	85	120	131
Soda ash	1,000 lbs.	29,535	39,235	38,257
Caustic soda	"	38,183	41,387	37,700

* Selected from "United States Trade with the Latin American Republics in 1940," *International Reference Service*, Vol. I, No 25 (May, 1941), "Trade of the United States with Mexico," *International Reference Service*, Vol. I, No. 53 (August, 1941).

Tables 41 and 42 show the principal exports and imports which entered the trade between the United States and Mexico prior to World War II. Our exports again followed the Latin-American pattern of manufactured goods, structural materials, and chemicals. Our purchases from Mexico

were a mixture of agricultural and mineral products—cotton, coffee, bananas, chicle, sisal, etc., on the one hand, and petroleum, zinc, copper, and lead on the other.

TABLE 42

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM MEXICO, 1938–40*

Commodity	Unit	Quantity		
		1938	1939	1940
Raw cotton and linters	1,000 lbs.	33,034	13,802	11,832
Bananas	1,000 bunches	15,497	13,913	6,614
Coffee	1,000 lbs.	49,946	58,191	52,626
Chicle	"	4,923	10,926	9,318
Tomatoes	"	20,807	14,619	23,115
Chickpeas	"	6,103	6,755	5,686
Vanilla beans	"	197	270	371
Sisal and henequen	Long tons	48,387	51,568	50,052
Bran and other wheat by-product feeds	Short tons	6,649	13,277	16,219
Guayule rubber	1,000 lbs.	5,618	5,001	8,139
Candelilla wax	"	1,411	3,357	5,644
Istle or Tampico fibre	Long tons	5,707	10,401	8,093
Binding twine	1,000 lbs.	16,009	6,235	8,598
Cords and twines	"	286	3,798	5,426
Cattle	Thousands	472	479	411
Cattle hides	1,000 lbs.	542	2,324	4,989
Goat and kid skins	"	2,378	2,421	2,242
Fish, fresh or frozen	"	6,303	4,387	5,721
Shell fish	"	6,683	7,329	7,852
Straw hats, paper hats	Thousands	3,581	3,233	3,470
Leather boots and shoes	1,000 pairs	226	358	385
Crude petroleum	1,000 bbls.	2,484	5,047	12,261
Kerosene	"	....	....	204
Tungsten ore	1,000 lbs.	1	147	114
Copper, unrefined	"	71,959	89,671	71,070
Lead ores, flue dust, pigs, bars	"	17,973	128,249	96,594
Tin ores, blocks, pigs, bars, scrap	Long tons	1	61	337
Zinc ores	1,000 lbs.	459	37,883	125,783
Antimony ore	"	197	270	371
Cadmium flue dust	"	....	....	1,891
Arsenious acid	"	16,843	16,247	15,041

* Selected from "United States Trade with Latin American Republics," *International Reference Service*, Vol. I, No. 25 (May, 1941); "Trade of the United States with Mexico," *International Reference Service*, Vol. I, No. 53 (August, 1941).

Recent Developments in Mexico. In 1943, Mexico and the United States entered a reciprocal trade agreement in which the former reduced duty rates on seventy-six items, while the latter allowed reductions on the items in fifty-seven paragraphs. Concessions granted by the United States covered a very wide range of articles, including citrus fruits, minerals, livestock, and such miscellaneous items as shark fins, wooden packing cases, soybean oil cake, garlic, and bobwhite quails. An equally varied list of items were bound on the free list.

As part of Mexico's war economy, the control of all exports was placed

in the hands of the Ministry of Finance and Public Credit. The essential purpose was to protect domestic supplies. A great many tariff increases which were proposed for 1944 were rescinded in part in favor of a licensing system and the imposition of higher export duties. A new system of import control was introduced in 1945. It has been pointed out that few executives wielded greater authority during the war than the President of Mexico and that few gave up their power as quickly with the return of peace. Thus, control over the tariff which had been assumed by the executive was turned back to the Mexican Congress, which doubled the import duties on 340 items and increased them at varying rates on seven others. Most of the items come under the classification of luxuries available only to the wealthier families. Hence, the duty is in this case a sort of sumptuary tax for revenue purposes rather than for protection.

SUMMARY

Latin-American tariffs have been levied on both exports and imports. They have served as an important source of revenue. They allow for a considerable measure of executive control, which makes them more adaptable and less predictable than the more rigid structures of other countries.

The Argentine tariff has consisted essentially of annual enactments in harmony with revenue needs. Much of the Argentine legislation is motivated by nationalism. One of Argentina's major grievances against the United States has been our treatment of her meat exports. Use has been made in recent years of trade treaties to facilitate commercial relationships with her neighbors and some European countries.

Brazil did not become a unified state until 1891, but her tariff policy was always protectionist. The tariff of 1900 was the highest in this hemisphere. Our preferential relationship with Brazil after 1903 was only moderately successful. Tariff revisions occurred in 1931, 1934, and 1940. The tariff was based on the bargaining idea. Brazil entered a reciprocal trade agreement with the United States.

Chilean economy was tied to her export tariff on nitrates and her exports of copper. Chile has employed protective tariffs for many years. Her laws have been fairly stable. The present tariff is still basically that of 1928.

Mexican economy reflects a spirit of nationalism and the desire to develop internally in terms of her own citizens. This has involved, among other things, oil expropriation and its complicated aftermath. Tariffs have always been high, and the authority of the executive over them has been great. Mexico employs export duties. She finds in the United States her best customer.

QUESTIONS FOR DISCUSSION

1. Characterize the use of tariffs, both import and export, by the Latin-American countries.

2. What is the nature of Latin-American exports as contrasted with imports?
3. What influence on commercial policy has been exerted by Brazil's desire to industrialize?
4. Using Chile as an example, make a list of the dangers faced by a country which relies on one or two exports to support its internal economy.
5. Summarize the oil expropriation by Mexico from the point of view both of Mexico and of the United States.

CHAPTER XXIII

POLICIES OF OTHER LATIN-AMERICAN COUNTRIES

VENEZUELA

Early Development. Venezuelan trade in early times[1] consisted of the export of pearls and gold and, subsequently, though in opposition to Spanish law, of cacao and hides to the Dutch West Indies. Exports suffered and declined in the early years of Venezuelan independence but became more important after 1830, when the union between Ecuador, Colombia, and Venezuela was dissolved. Coffee, cacao, cotton, indigo, tobacco, and hides made up 85 per cent of the exports. Coffee was the most important export from 1830 to 1925, since which time petroleum has held first place.

The Venezuelan Tariff. The development of the commercial policy of Venezuela is best explained by the fact that the country was ruled from 1908 to 1935 by one man, Juan Vicente Gomez, who regarded it as "his personal hacienda."[2] But already at the end of the third quarter of the nineteenth century, Venezuela was employing an elaborate tariff system containing 442 separate descriptions of goods which could be imported and four classes of goods, the importation of which was forbidden. In 1884 the dutiable list had been increased to 521 and the prohibited list to 16 classes. The law of 1924 listed 788 items. Since 1929, there have been five tariff revisions, always upward. The act of 1935 increased duties up to 50 per cent against countries discriminating against Venezuela and authorized the establishment of quotas, particularly for cotton textiles, in order to balance her trade.

The new tariff of 1936 introduced a new classification of goods. Although retaining gross weight as the basis (for example, an automobile weighing up to 800 kilos was taxed 0.55 bolivars and one weighing between 801 and 1,400 kilos, 0.60 bolivars), the new duties included surtaxes amounting to 56.55 per cent of the duty. Parcel post imports were made subject to an additional surcharge of 2 per cent of the invoice value. Among the commodities subject to higher rates were fresh and canned goods, motor vehicles, typewriters, office appliances, electric refrigerators,

[1] *Commerce Monthly*, July 1, 1939, p. 602.

[2] Taken from series of seven articles on South America appearing in *Fortune* magazine beginning with the issue of December, 1937.

radios, moving picture films, rayon hosiery, eggs, sardines, oatmeal, biscuits and crackers, potatoes, razor blades, rock drills, and passenger automobiles.

Rates were reduced on milk, infant food, rubber tires and tubes, rubber hose, tubular products and fittings of iron and steel, electric batteries other than for flashlights, silk hosiery, and cigarettes. Executive authority over the tariff was also enlarged. Subject only to the requirement that he report to the legislature at its next regular session what he had done, the executive could admit goods free, raise rates by 50 per cent or lower them by 25 per cent, prohibit importation, establish quotas and a permit system, and conclude trade agreements. Provision was also made for an export tax up to 10 per cent to be levied on mineral and agricultural products, but little use was made of this authority.

In general, Venezuelan duties have been among the highest in the world in order to encourage the establishment of small industries and bring about the use of domestic raw materials. Other legislation, such as government loans, monopoly grants, restrictive devices, export bounties (on coffee, hides, forest products, oleaginous seeds, bananas, fruits and vegetables, tobacco, corn, shark fins, hides and flesh, alcohol, and liquors), has been invoked from time to time toward accomplishing the same end. In the spring of 1938, Venezuela established an import quota system to help bring about a balance between exports and imports and also to retaliate against countries restricting Venezuelan exports.

Reciprocal Trade Agreement with the United States. Concessions granted to the United States in the reciprocal trade agreement which went into effect on December 16, 1939, covered 96 products, which represented about one-third of our exports to that country. Reductions ranged from 2.5 per cent to 62.5 per cent on 35 products, while 61 were bound against increases. When it came to deciding what concessions to grant Venezuela, the peculiarity of her economy became apparent. The one product that accounts for 90 per cent and more of her exports is oil, which was produced by non-Venezuelan companies under government concession. It was shipped to the Dutch West Indian possessions of Aruba and Curaçao for refinement and thence exported to the United States and the United Kingdom. In a real sense, then, these islands took 75 per cent of Venezuelan exports. Our concessions, accordingly, covering about 90 per cent of our imports from that country, took the form of a continuance of the importation duty-free of crude petroleum and fuel oil for use of American vessels and a reduction of 50 per cent in the existing rate for other uses on an amount not to exceed 5 per cent of the total amount of crude petroleum refined in this country during the preceding calendar year. We bound one rate against increase, promised the continuance of nine others on the free list, and reduced two others by 50 per cent.

The Three-Year Plan. In common with other Latin-American nations, Venezuela undertook a plan of public improvement. A three-year plan was started in July, 1938, looking forward to the improvement of industry, the expansion of agriculture, better education and public health, and the stimulation of a selected immigration. Toward these ends, the familiar devices were brought into use—public works, subsidies on agricultural exports, revision of the customs laws dealing with necessities in order to keep living costs down, a new petroleum law, and laws regarding eminent domain.

Venezuelan Trade Relations. The United States has always occupied the leading position as supplier of goods to Venezuela—her share hovering between 44 and 57 per cent. The United Kingdom and Germany have ranked second and third, respectively. France and Italy have played a very modest role. After 1936 the shares of all countries declined, while that of the United States rose.

Keeping in mind the peculiar relationship of Venezuela and Curaçao and Aruba which began in 1923, the largest part of the exports have been purchased regularly by the United States. Other countries figuring in this trade were the United Kingdom, Germany, and France.

United States–Venezuelan Trade Viewed Quantitatively. Venezuelan purchases from the United States have been manufactured products such as cotton cloth (5,165,000 square yards in 1940), silk hosiery (72,608 dozen pairs), copper wire and cable (1,394,000 pounds), electric refrigerators (6,181), sewing machines (9,521), iron and steel products (over 110,000 long tons), automobiles and trucks (8,129). Newsprint, cement, cigarettes, sardines, and canned milk entered the trade as well. About thirty different types of goods, each in excess of $250,000 in value, were purchased from the United States in 1940.

The list of exports to the United States is small. Cocoa and cacao beans (24,359,000 pounds) were valued at $2,118,000 in 1940. Coffee (45,572,000 pounds) amounted to $2,921,000; petroleum (28,845,000 barrels) $21,861,000; and gas and fuel oil (11,863,000 barrels) $9,883,000.

Recent Developments in Venezuela. In 1942, Venezuela, and Argentina formed a reciprocal most-favored-nation agreement. During 1944, import licensing requirements were removed from many items and some drastic reductions were made in tariff rates, principally in the metals schedule. A revolution in October, 1945, overthrew the government. The new government declared inoperative a new tariff law which had been framed just before the revolution and was to have become operative on January 1, 1946. A new committee was appointed to frame a tariff, and its recommendations became law on February 1, 1946. It paralleled the law which had been annulled but also resembled the law of 1938. After one

year in office, the new government staged the first secret election in Venezuelan history. It is interesting that, because of the high degree of illiteracy, voting had to be carried on by means of differently colored ballots. The party in power was returned to office. Among the plans that hold significance for external economic relations is the drafting of a new constitution that may be expected to stress nationalism.

COLOMBIA

Introduction. Internal stability is essential before an uninterrupted international trade is possible. Judged by this standard, Colombian trade began in 1903. Although the republic was founded in 1831, the intervening period was one of intermittent civil war. It is true, of course, that a certain amount of trade flourished. Tobacco was the leading export until 1878. Then, for a time, this position was won by cinchona bark, the source of quinine. Subsequently, coffee assumed the leading role. In 1918, coffee made up 55 per cent of all Colombian exports; in 1924, 80 per cent; and in 1939, 49.2 per cent. In that year, just three items—coffee, petroleum, and bananas—accounted for almost three-fourths of all the exports.

In 1922 the first aggressive steps were taken toward internal improvements, but progress was slow because of political instability. Even today, the country has made little progress toward industrialization. There is little heavy industry, and even the manufacture of consumer goods is inadequate for the domestic market. This condition persists in spite of a high tariff system.

Colombian Tariffs. The tariff law of 1903 was somewhat less detailed than other Latin-American tariffs and enumerated 394 items. But this number had increased to 1,800 in the law of 1913. Colombia has also maintained export tariffs over a long period of time on such things as toquilla straw, stuffed birds, tagua nuts, platinum, gold coin, and jewelry.

Prior to May 20, 1936, when the reciprocal trade agreement with the United States became effective, the tariff of Colombia had been of the single-column type, although, under the law of 1931, a penalty tariff (one-fourth higher than the basic rate) was provided on goods imported from countries failing to extend the most-favored-nation treatment. The tariff, accordingly, became one of multiple columns—the maximum rates applying to countries buying small quantities of Colombian exports or obstructing the inflow of such products. The basic rate applied to countries buying substantial amounts and not placing any special restrictions against Colombian goods. The minimum rates were given in return for the most-favored-nation treatment. In 1937, Colombia changed the price of merchandise for customs purposes from the f.o.b. value of the goods, port of export, to the price at the port of discharge. The latter rate being higher by

the cost of transportation, insurance, and incidental expenses, this constituted an increase in rates. Since 1927 the customs have supplied between 40 and 60 per cent of Colombia's normal revenue.

The Reciprocal Trade Agreement with the United States. The reciprocal trade agreement with the United States provided for concessions (reductions and bindings against increase) on the part of Colombia involving more than 150 tariff classifications and covering 58 per cent of the total imports from the United States in 1933. The reductions ranged from 16 to 90 per cent of the duties in force prior to the agreement. In turn, the United States granted a reduction of 50 per cent on one product (tolu, a balsam), bound two others (castor beans and prepared ipecac) against increase, and bound on the free list the following: bananas, coffee, emeralds, gutta percha, platinum, reptile skins, tagua nuts, and tamarinds. In terms of the trade carried on in 1933, between 88 and 99.5 per cent of the Colombian exports to the United States entered free.

Other Agreements. Colombia had also entered commercial agreements or compensation or clearing agreements following 1934 with Italy, Germany, Czechoslovakia, Denmark, and Norway. Other countries have also enjoyed trade on a compensation basis through action of the Exchange and Export Control Board—Spain, Siam, the U.S.S.R., China, and Austria. This board issued lists of products from time to time and in the order of preference for which foreign exchange was to be made available. The list, dated March 7, 1940, for example, covered a great variety of goods:

All imports by official agencies—national, departmental, and municipal
Motors, dynamos, transformers
All electrical accessories, lamps, bulbs, insulators, cables, wire, and storage batteries
Chemical fertilizers, powder, and explosives
Barbed wire, plain wire of any metal
Corrugated iron sheeting and asbestos sheeting
Structural steel
Sanitary apparatus
Boilers and all kinds of accessories for steam engines
Trucks and tractors
Agricultural machinery
Tires and repair parts for motor vehicles
Newsprint paper
Paper for the graphic arts
Wrapping paper for factories, paper bags, and cardboard
All kinds of drugs and pharmaceutical articles
All kinds of dental supplies and dentists' chairs
Motion picture films
X-ray film, photographic plates, and accessories for photography
Sewing machines and parts

Raw cotton for factories
Copra and raw materials for lard factories
Cotton, silk, and wool yarns
Rosin and caustic soda
Marble
Books
Printing ink
Insecticides, fungicides, and disinfectants
Motion picture apparatus and accessories
Typewriters
Thread on spools, tubes, or cones, of linen, cotton, elastic, etc.
Chemical or vegetable extracts and tinctures
Paints and varnishes
Flat glass, locks, builders' hardware, wall paper, and all kinds of accessories for construction
Prepared foodstuffs for children, dry milk, etc.
Lubricating oils and greases
Medical instruments
Artisans' tools and implements
Railway material
Cigarette paper
Cacao
Wheat
All kinds of machinery for industries, repair parts, and accessories
Iron or asbestos pipe and accessories for water systems
Cash registers, adding, calculating, and accounting machines
Tin plate for the manufacture of containers, aluminum in sheets or disks, and all kinds of metals for industries
Hard rubber in slabs or sheets
Cork, wood, and insulating material
Lenses and optical glass in any form for the manufacture of eyeglasses and all accessories for the optical industry and opticians' establishments
Stearine, wick, gum, and all raw materials for the match and candle industry
Raw materials for the manufacture of footwear
Raw materials for the manufacture of hats
School supplies, material for laboratories, precision and scientific instruments
Rennet and elements for the dairy industry and its derivatives
Hops, malt, and raw materials for the brewing industry
Seed, breeding stock, and other elements required by the agricultural industry

Other Colombian Legislation. In addition to emphasizing certificates of origin as an aid to "Buy Colombian" and sanitary certificates, Colombia also employed other encouragements to industry. For example, at the end of 1938, all duties and fees on the importation of cattle, horses, sheep, and hogs for breeding purposes were removed and a bonus, not in

excess of 25 per cent of the cost price of such animals delivered to Colombia, was to be paid to the importers. The purchase of such animals by the government was provided as well. They were to be resold to the breeders 25 per cent below cost.

Colombian Trade Relations. The United States has been both the largest buyer of Colombian products (between 60 and 68 per cent in recent years) and the largest seller of supplies to that country (40 to 56 per cent). Germany's importance had decreased steadily beginning in 1936 both as a buyer and seller. Although Great Britian was never important as a buyer of Colombian products, her position as a supplier likewise showed a decline—from around 19 per cent in 1936 to 10 per cent in 1939.

Colombian exports to the United States, each of which exceeded a value figure of $250,000, consisted of 2,274,000 bunches of bananas, 530,024,000 pounds of coffee, 451,000 barrels of crude petroleum, and 33,000 ounces of platinum.

Colombian imports from the United States have been mostly manufactured and semimanufactured goods. A partial list, together with the physical units in 1940, included refined sugar (19,174,000 pounds), automobiles and trucks (3,918), rails (4,319 long tons), other iron and steel products (8,702 short tons), lard (9,591,000 pounds), cigarettes (161,000,000), raw cotton (21,761 bales), duck and cotton cloth (15,045,000 square yards), newsprint and other paper (17,915,000 pounds), tin plate (9,349,000 pounds), electric refrigerators (3,232), sewing machines (9,889), tractors (126), and ready-mixed paints (181,000 gallons).

Recent Developments in Colombia. In 1940, Colombia extended to Argentina tariff concessions granted the United States in 1935. The treaty was of the most-favored-nation type. A similar treaty with Chile in 1942 also led to lower rates. Colombia is now in the throes of a protectionist tariff controversy.

PERU

Introduction. Until Peru won her independence from Spain in 1821, her foreign trade was confined to the export of silver. After that, guano and nitrates were the important items of export. The former, the chief source of Peruvian revenue, producing $75,000,000 between 1851 and 1872, is the natural deposit of birds and useful as fertilizer.[3] Nitrate deposits were lost to Chile in 1879 as a result of the war of the Pacific. As

[3] Roy Chapman Andrews refers to the Peruvian cormorant as the most valuable of birds. Protected by the government since earliest times, the cormorants congregate on the islands along the coast of Peru in untold millions. Unknown to the outside world until a century ago, these guano beds represented the accumulation of thousands of years. In 1843 a "guano craze" struck Europe. Vessels estimated to number 50 or more at a time carried away millions of tons. Today the National Guano Administration supervises these deposits and protects the birds.

late as 1914, Peruvian economy still showed the effects of this event. No census has been taken in Peru for the last sixty-five years. Hence, the total population as well as its make-up is a subject of conjecture. Estimates place the population between 6,600,000 and 10,000,000 and suggest that anywhere from one-half to two-thirds of the population is made up of full-blooded unassimilated Indians. Attention is called to this point in order to make clearer the economy of Peru. Foreign capital has been so dominant that a curious fact results from that country's favorable trade balance. It has been pointed out:

> The Peruvian balance of trade is entirely misleading owing to the fact that it is not really Peruvian. Indeed, as a general rule, it may be said that all Peruvian exports except those of agriculture belong to foreigners before they leave the country; and even in agriculture there is some foreign investment (cotton and sugar). It is evident, then, that Peru's international position is not what the import and export figures would make it appear. The favorable balance of trade is very largely, if not entirely, offset in the balance of payments when the foreign-owned corporations exporting commodities from Peru pay out their profits to foreign shareholders. The most important benefit accruing to Peru from at least 60% of its foreign business comes in the form of wages; and although this item is net, it cannot be very large since the going rate of wages ranges from thirty-three United States cents a day in agriculture to seventy-five cents in the mines.

The Peruvian Tariff. In spite of this situation, Peru has long had a tariff system somewhat more modern than some of the other Latin-American states. The tariff of 1910 had already got away from the official valuations and made use of specific rates. Ad valorem rates were used primarily in their blanket or catchall provisions. The tariff consisted of twenty sections, subdivided into 3,418 paragraphs, but, like the tariffs in Brazil and Argentina, the number of paragraphs was swollen by the enumeration of all patent medicines and druggist supplies by name—some 548 paragraphs in the case of Peru, over 400 in the case of Brazil, and 922 in the Argentinian tariffs prior to World War I.

Some idea of the type of imports in 1910 may be had from the following schedules under which imports were classified and assessed:

1. Cotton
2. Wool and hair
3. Flax, hemp, jute, and other textile fibres
4. Animal and vegetable silk
5. Hides and skins
6. Different made-up or manufactured articles of various materials
7. Furniture
8. Metals
9. Stones, earths, ceramic products, and glassware

10. Wood
11. Coloring materials, varnishes, bitumens, and gums
12. Live animals
13. Office supplies, paper, and cardboard
14. Tools, marine supplies, machinery, and vehicles
15. Musical instruments
16. Arms, ammunitions, and explosives
17. Miscellaneous
18. Beverages
19. Provisions and spices
20. Medical substances and druggists' supplies

Since 1929 the government has been active in building up domestic industry. In 1933 she reversed her policy, which had been to give monopolistic concessions to manufacturers, and ordered the abolition of all monopolies other than those run by government, namely, tobacco, matches, salt, explosives, and industrial alcohol. At the same time, however, in order to prevent excessive competition and overproduction, the government reserved the right to prevent the import of textile, hat-making, and other machinery for stated periods of time. In 1936, Peru undertook to bring about a state of industry wherein at least 80 per cent of the employees of all commercial and industrial organizations were to be Peruvian.

The Present Tariff. A general revision of the tariff was completed in 1936. In 1940, rates were raised on sixty-one items of a luxury nature, goods, that could be produced domestically, as well as on other goods the purchase of which consumed too much foreign exchange. Executive power over the tariff was defined more clearly than it had been before and was very extensive. It covered changes without limit and was subject only to report to the next legislature. In the case of foodstuffs, the executive could combat high prices by lowering import duties without a subsequent report. The tariff has supplied Peru with about 30 per cent of her revenue.

Peru still employs export duties, some of which are specific in form, while others are ad valorem or mixed. Some of the commodities involved are petroleum and its derivatives, copper, gold, bismuth, lead, zinc, vanadium, tungsten, borates, cottonseed oil, cottonseed, cotton, cinchona, cacao, sugar, alcohol, wool, tagua nuts, woods, gums and resins, charcoal, and skins and furs. In common with other Latin-American countries, Peru has also employed the familiar devices of import quotas and other trade-controlling methods.

Agreements granting tariff concessions and import quotas were entered into, beginning in 1934, with France, Chile, the United Kingdom, Brazil, Bolivia, and Argentina. In 1938 a joint regional tariff was effected with Colombia covering the frontier zones of the two countries.

Peruvian Trade Relations. The United States and the United Kingdom shared the position as leading buyer of Peruvian exports since 1909. The lead of the United States was clearly established in the twenties and became more marked after 1938. The share of France, which had dropped to less than 1 per cent in 1928, rose to 10.3 per cent in 1936. Thereafter it declined. Germany's share rose irregularly to 13.4 per cent in 1937 only to decline sharply after that.

The United States occupied the dominating position as a supplier of Peruvian imports. Since 1921, our share of the market has ranged from 26.9 to 49.5 per cent. That of the United Kingdom has declined steadily from 30.6 per cent (an average for the period 1909–13) to 10 per cent in 1938 and to 8.4 per cent in 1939. Germany's share had shown a rapid increase after 1934, reaching 20.3 per cent in 1938, but beginning in 1939 her share dwindled.

United States–Peruvian Trade Viewed Quantitatively. The principal exports of Peru to the United States have been sugar (60,000,000 pounds in 1940), tungsten ore (292,000 pounds), vanadium ore (4,598,000 pounds), copper (70,744,000 pounds), lead ores (42,432,000 pounds), and zinc ores (11,254,000 pounds).

The leading imports from the United States in physical units in 1940 were 11,681,000 pounds of tin plate and taggers tin, 1,432 motor trucks and busses, and 1,807 passenger cars.

Recent Developments in Peru. In 1942, Peru entered a reciprocal trade agreement with the United States. With the ending of the war, plans were made for a complete study of the whole tariff system, the rates of which had been mounting in recent years. A permanent change in Peruvian export economy resulted from the encouragement given by the United States to flax raising which made Peru the leading Latin-American exporter of that product. Rubber and quinine also benefited from our encouragement.

BOLIVIA

Introduction. Bolivia's status as an independent nation dates from 1825, when she won her freedom from Spain. The country was named for the great liberator, Simon Bolivar. Bolivia's first president was given a life position, but he was overthrown after two years. His successor ruled for two decades. The years that followed were marked by political unrest, which, of course, has always held back normal economic relationships with other countries.

The population make-up has also contributed to the slow growth of Bolivian development. Over half of the population is Indian, and an additional 32 per cent is a mixture of white and Indian. Bolivian law adds another element in holding up progress, namely, that at least 85 per cent of

the workers employed in a venture must be of Bolivian nationality and that they must receive that same percentage of salaries and wages paid.

Bolivian Tariffs. The Bolivian tariff in 1893, to take an early law as an example, was divided into eleven divisions called "sections," involving 4,524 dutiable goods and classifications. The sectional titles reveal the state of the economy to some degree. We list them here:

1. Cottons
2. Woolens
3. Linen, hemp, and jute goods
4. Silks
5. Made-up clothing and sewn articles
6. Furniture
7. Miscellaneous articles
8. Small wares and hardware
9. Comestibles
10. Wines, liquors and other beverages
11. Drugs and chemical products

The tariff law of 1899 imposed a surtax of 25 per cent on existing rates. A general revision occurred in 1905 and again in 1911. Export duties were imposed on a number of products. Imports listed covered 3,587 paragraphs and were arranged alphabetically by designation of individual commodities without any attempt to order them by schedule or other grouping except in the case of beverages, drugs, and chemicals. In the law of 1911, this group alone filled tariff numbers 2,805 to 3,587. Almond oil was numbered 2,805, poppy oil was 2,806, cod liver oil 2,807, castor oil 2,811, vaseline 2,816, agar-agar 2,847, rock candy 2,928, and so on. The rates used were essentially "official" rates.

At the opening of the following year, a surtax of 15 per cent was added and an additional 2 per cent was imposed on the official valuation. In 1916 a law was proposed which dropped the official valuation and made use of specific rates instead. It divided the goods, based on their component material, into 2,894 paragraphs under thirty chapters or schedules with subgroups.

The Tariff of 1927. The tariff of 1927 remained the basic law until 1940. It imposed the same rates on the products of all nations and contained no provisions for reductions by agreement or other method. The executive was given wide authority over imports "to defend the State against the adoption of legal or regulatory measures which prejudice Bolivian commerce."

Since 1927 the changes in tariff rates took the form of increases imposed by "currency depreciated surcharges." The surcharges imposed in 1936, for example, meant a general increase on nearly all articles and ranged from 20 to 275 per cent of the original rates. In 1937 an increase of two-thirds was decreed in order to compensate for further changes in the official rates, while in 1938 an entirely new and substantially higher set of rates ranging from 40 to 800 per cent of the basic duties went into effect.

Some modification on articles of prime necessity followed in 1939. On luxury goods not only were the basic rates increased markedly but the new surcharges ranged from 40 to 950 per cent.

The Law of 1940. The law of June 1, 1940, was essentially a codification of the changes made in the law of 1927, together with numerous changes in classification. The International Brussels Nomenclature was adopted. The surcharges were retained. In its new form the tariff contained 1,197 items or an increase of 235 over the older form.

Export Duties. Export duties have played an important part in Bolivian finances, contributing between 10 to 30 per cent of governmental revenue between 1900 and 1939. The rates have been high—probably 25 per cent between 1935 and 1940. Some of the items subject to these duties included tin, silver, wolfram, copper, antimony, bismuth, lead, zinc, and gold. Other items were rubber, molasses, honey, lard, tallow, barley, hay, chestnuts, chicle, gutta percha, cattle, meats, and ipecac.

The complicated nature of these taxes may be illustrated by the duty on tin. In 1924 a graduated export tax was imposed. This was supplemented in 1929 by surcharges to offset the depreciation of the boliviano. In 1932, two additional surcharges were imposed. A third was added in 1933. A statistical tax of 1.5 per cent which applied to all exports, together with a number of local export taxes, also were levied. Another so-called "additional tax" was imposed in 1939 on the basis of the percentage of foreign exchange which the tin exporters were required to surrender to the government at the official rate. Accordingly, about a dozen export taxes were levied on tin in 1939.[4]

Other Trade-Regulating Devices. Bolivia also employed other trade-regulating devices after 1932. Among these were exchange and import restrictions. Since October, 1938, certain goods have been labeled "articles of prime necessity," as opposed to luxury goods. The former included sugar, rice, flour, wheat, livestock, cotton, oil, and lard. For such goods, exchange was made available although under minute regulations. The other type of goods was sometimes restricted and at other times almost completely barred. The decree of May 8, 1940, was of this last sort. The goods named were preserved fruits; perfume and toilet articles; tobacco and its products; ready-made articles of cotton, linen, wool, and silk; automobiles other than omnibusses and trucks; motorcycles and bicycles; high-priced radios and phonographs; metal office furniture; and a great many others.

Special attention has also been directed to wheat and wheat flour. The law of November, 1938, established a progressive scale of import duties on wheat and wheat flour. Based on 100 kilos of wheat, the rate through 1939 was 8 bolivianos; for 1940, 10 bolivianos; for 1941, 13; for 1942, 16; for

[4] *Economic Controls and Commercial Policy in Bolivia,* United States Tariff Commission (Washington, D.C.: U.S. Government Printing Office, 1946), pp. 8–9.

1943, 19; for 1944, 22; and thereafter, 25 bolivianos. The same scheme applied to flour, although the rates differed. Mixing and milling restrictions were also in force. Flour was to contain 20 per cent domestic wheat in 1939. By 1945 no foreign wheat was to enter for domestic consumption. The law allowed certain exceptions so that a few regions of Bolivia were exempted from these provisions.

In common with other Latin-American countries, Bolivia has had since 1936 a government monopoly for the purposes of exploring and exploiting the petroleum field and of merchandising the products. Materials and equipment needed for this monopoly have been exempted from import duties.

Dominating Factors in Bolivian Commercial Relations. Bolivia, it must be remembered, is entirely landlocked and must send all its exports and bring in its imports through Argentina, Chile, or Peru. These countries have granted all the necessary privileges to facilitate Bolivia's foreign trade, but at times a restiveness can be noted which may assert itself at some future time. Certainly, Bolivian policy must always be shaped in these terms. Another condition is the preponderance of minerals in Bolivian exports—over 90 per cent. Tin alone accounts for 68 per cent. In 1940, tin exports amounted to 38,531 tons valued at $50,000,000. The export taxes collected on this amount came to $2,955,813. Bolivian exports usually exceed her imports. Domestic manufacturing has been confined almost entirely to household industry.

Bolivian Trade Relations until 1940. The United Kingdom was the outstanding market for Bolivian exports, absorbing as much as 90 per cent in 1934. Belgium was next in order. The United States stood third, taking between 2 and 8 per cent. The United States was the largest source of supply, however, sending 25 per cent and upward annually. The United Kingdom occupied second place until 1933, when Germany and Argentina assumed important positions in the Bolivian market. In 1940, Germany dropped to eighth place.

United States–Bolivian Trade Viewed Quantitatively. The principal purchase by Bolivia from the United States in recent years was rails—6,006 long tons in 1940. Bolivian exports to the United States in 1940 included crude rubber (426,000 pounds), tungsten ore (1,811,000 pounds), lead ores (3,567,000 pounds), tin ore (2,285 long tons), and antimony ore (11,094,000 pounds). The newness of this trade relationship must be pointed out, however. The figures for tungsten ore were only 30,000 pounds in 1938 and 319,000 in 1939. Those for lead were only 3,000 pounds in 1939; for antimony ore, 2,265,000 pounds in 1938 and 4,909,000 pounds in the following year.

Recent Developments in Bolivia. In 1942, because of desperate demands for minerals, Bolivia found export taxes to be her greatest source

of revenue—60 per cent. Imports of the luxury type were held down during World War II and a long list of items was exempted from duties to help build up domestic economy.

ECUADOR

Introduction. Although Ecuador has never published a census, it is estimated that the population is 3,500,000. Essentially an agricultural country, the chief export crop is cacao. The government has been using high tariffs and such special inducements as freedom from taxes and free trade in raw materials needed by industry in order to build up domestic industry. Another example in recent Ecuadorian legislation, which is probably the outgrowth of the same nationalistic spirit, is the Law of Foreigners (1938). No foreigner is to be given a permit to settle unless he possesses "a capital not less than one thousand American dollars, which shall be invested in agricultural pursuits or some industry approved by the Central Office of Immigration, taking into account what may be beneficial for the country." The probable effect of such a law is not always clear, but it can always work a hardship. For example, at the time of its enactment, there were 221 United States citizens living there, about 8,000 Colombians, 1,500 Peruvians, 150 Chileans, and about 1,000 Italians. How many of these persons would have had the necessary $1,000 was problematical, since most were laborers. Another serious question was the locating of a safe investment for $1,000 in Ecuadorian economy.[5]

The Ecuadorian Tariff. The basic tariff law of 1927 had been of the single-column type. Rates were revised upward in 1929, 1931, 1935, and 1936. All of these changes were incorporated in the new tariff of March 30, 1938. In addition to an emphasis on specific rates of duty, the new law continued the multiple-column form which had been introduced in 1936. In effect, the tariff consisted of four columns—the fourth becoming effective when the state of Ecuadorian trade balances with any country became unsatisfactory. Evidence for this condition was to be found when any country was exporting to Ecuador an amount exceeding her imports from Ecuador by more than 30 per cent. The other three columns consisted of a maximum set of rates which were higher on about 300 classifications. These could be reduced by three-tenths to form the minimum column. A third column consisted of the conventional rates—that is, those determined by commercial treaty or trade agreement.

The penalty rates of 1938 were later raised by surtaxes ranging from one-fifth to over one-half on eighteen tariff classifications, and the differential was changed to 50 per cent. Such rates, however, were to be discontinued if the trade fell below 50 per cent for at least six months. In 1939 the surcharge was raised to 75 per cent.

[5] *Commerce Reports*, April 10, 1938.

From time to time executive decrees announced the countries subject to these surtaxes. A decree of March 2, 1938, named thirty countries and regions; that of April 1, 1939, included twenty-nine countries, while that of April 1, 1940, listed twenty-seven. Bulgaria, Canada, El Salvador, the Straits Settlements, Estonia, Hungary, British India, Iraq, Jamaica, Latvia, Norway, Portugal, the Sudan, and Zanzibar were found on these three lists. The United States appeared on none of them.

Other Regulations. On May 19, 1938, Ecuador established complete control over all imports; and on June 15, 1940, because of "the serious exchange situation faced by Ecuador at the present time due to export difficulties and excessive imports which have resulted in currency depreciation and considerable exports of gold," our State Department agreed to import quotas and increased import duties on the list of products entering our reciprocal trade agreements with that country. For six months, certain imports from all countries were to be restricted to one-half in volume of the average imports during a corresponding period of recent years—lard, canned sardines, wheat flour, prepared paints including enamels and lacquers, cash registers, automobiles, calculating machines, oilcloth, imitation leather for upholstery, and silk and artificial silk stockings and socks.[6]

Toward the end of 1940, conditional imports of luxuries under permits was provided. Among the articles affected were automobiles valued at more than $700 f.o.b., cosmetics, confectionery, silk and cotton garments, jewelry except timepieces not made of gold, liquors except wine, art goods, radios valued at more than $50 f.o.b., refrigerators valued at more than $100, hats, silk textiles, and rubber balloons.

Ecuador has also controlled exports at times as part of exchange and import control. In addition, she followed a practice of long standing by imposing export duties, principally on cacao, coffee, leather, hides, and cottonseed. In 1936 the most important tax, that on cacao, was abolished together with those on most other commodities. It is interesting to note that this form of tax, which brought in half of the national revenue up to 1913, was yielding less than 1 per cent in 1938.

Trade Agreements. By 1940, trade agreements had been entered into involving tariff concessions with Italy, Belgium, France, Brazil, Germany, Chile, Czechoslovakia, Switzerland, the Netherlands, and the United States. The Italian treaty supplemented that of 1900 and promised unlimited and unconditional most-favored-nation treatment, as well as all possible concessions in the face of innumerable commodity and exchange restrictions. It also fixed the amount of exchange to be made available for key products.

Under the trade agreement with the United States, Ecuador granted

[6] *Ibid.*, June 22, 1940.

concessions on 33 items, involving nearly half of our exports to that country. Reductions ranging from 25 to 50 per cent were provided in 15 classifications, while 18 others were bound—something over 200 items being included. Reductions of substantial amounts were granted on the four leading exports to that country. These included wheat flour, lard, automobiles, and lubricating oil and grease. Other products which benefited by reductions were prepared paints, enamels, lacquers, dentifrices, pharmaceutical specialties, sewing machines, and dry batteries and parts.

Our concessions consisted of reductions of 50 per cent in the rates on five commodities ("Panama" hats being the most important), and the binding of eleven others on the free list. These concessions covered more than three-fifths of our total imports from Ecuador.

United States–Ecuador Trade Relations Viewed Quantitatively. Ecuador's principal sales to the United States have consisted of agricultural products. In terms of 1936, for example, Ecuador shipped 1,327,000 bunches of bananas, 11,343,000 pounds of cacao beans, 9,324,000 pounds of coffee, 14,738,000 pounds of tagua nuts, 1,211,000 pounds of rubber, 3,228,000 feet of balsa lumber, and 265 tons of kapok. Silver exports came to 45,171 ounces troy; gold amounted to 60,153 ounces.

Ecuador's purchases from the United States in the same year included 103,511 barrels of wheat flour, 1,435,000 pounds of lard, 3,108,000 cigarettes, 326,215 pounds of cotton yarn and thread, 37,033 dozen pairs of cotton hosiery, 372,088 pounds of cordage, 565,446 square yards of woolen cloth, 1,738,578 square yards of silk and rayon cloth, 105,909 hats and caps, 107,738 barrels of crude petroleum, 120,021 barrels of Portland cement, 1,465 radios, and 839 automobiles and trucks.

Recent Developments in Ecuador. After 1941, Ecuador imposed a number of successive surtaxes on imports as well as a tax of 10 centavos on each United States dollar or its equivalent on all foreign exchange transactions. In 1943 the concessions previously made with Colombia were expanded. A general tariff revision in 1944 raised about three-fourths of the rates—some sharply. Some reduction was made on essential foods during the following year.

PARAGUAY

Introduction. Paraguay won her freedom from external control in 1811 but was cut off from relationships with the rest of the world through the policies of three dictators who flourished between 1814 and 1870. A landlocked agricultural nation, Paraguay has a population of less than 1,000,000. Her exports have consisted of agricultural products, of which cotton made up 25 per cent, and forest and pastoral products. Quebracho, the most important source of tannin, is one of her principal exports. Its production in recent years, in order to avoid competition, has

been subjected to an international understanding with Argentine producers whereby output is controlled and divided according to their respective capacities. Prices have been fixed and selling arranged through predetermined agencies in assigned markets. Hides, canned and preserved meats, meat concentrates and extracts, and grease and tallow also enter the international market.

Manufacturing is confined almost entirely to the processing of local raw materials and producing supplies for the local market. The quality of the latter is poor, and the prices are high. Little progress toward further industrialization can be expected in the near future.

The Tariffs of Paraguay. The basic tariff law, that of 1925, has been amended by subsequent decrees. In part it was the work of an expert from the United States whose services were loaned to Paraguay. Earlier laws had been quite complex. That in force in 1915, for example, was based on official valuations and contained 3,770 items. The listing "Drugs, Chemicals, Pharmaceutical Products," covered articles 1,911 to 2,868. Of these, "Patent Medicines and Specifics," ran from paragraph 2,499 to 2,679. Such items as "Winslow's Syrup" and "Hind's Honey and Almond Cream" were listed by name.

The law of 1925 was a single-column tariff except for preferential reductions favoring Uruguay and covering livestock, agricultural produce, and certain manufactured goods. Specific duties were found under Schedule A, and ad valorem rates under Schedule B. The latter started at 9 per cent and rose to 89 per cent. As a result, an item such as beverages might have been found under Rate H or 62 per cent (beer), I or 79 per cent (alcoholic beverages), and J or 89 per cent (cane, brandy). Although fundamentally for revenue (providing well over 50 per cent of the total income), it had in common with other countries some protective duties and employed specific rates with alternative ad valorem rates in the interest of yield. The free list included fresh fruits and vegetables, scientific instruments, certain types of agricultural, industrial, and mining machinery, as well as transportation equipment. Provision was also made for a surtax of from 5.5 to 14 per cent.

Rates were raised at various times following the passage of the act. The increases ranged from 7 to 14 per cent on dutiable items and 5.5 per cent on those taken off the free list. A consumption surtax in 1938 raised many of the basic rates by 10 per cent. In 1938 a commission was appointed to modernize the tariff in harmony with changing conditions. The executive in Paraguay has had the power to prohibit imports altogether, to modify rates upward or downward by as much as one-half, and to place rates as high as 50 per cent ad valorem on items hitherto free. In 1935 a decree compelled importers to pay 30 per cent of the duties on most goods (and 100 per cent on gasoline) in gold or its equivalent in Argentine paper

pesos. The percentage was increased to 40 per cent in 1938 and 50 per cent in 1939. The effect was equivalent, of course, to an increase in tariff rates. In 1940, machinery for knitted fabrics was placed on the free list, as well as certain yarns; but the customs surtax of 5.5 per cent of the f.o.b value, port of export, in the case of machinery and 7 per cent in the case of yarn were retained. Export duties have been used on oil of petit-grain, quebracho extract, lumber products, and hides and skins. A general tax of 1 per cent ad valorem has rested on all other exports unless specifically exempted.

The Paraguayan government had also made use of quota restrictions on imports. The decree of June 2, 1939, prohibited all imports not covered by prior permits and announced that in the future import quotas would be allotted to each country in terms of three-fourths of the amount of Paraguayan exports taken by each country. This was abolished in February of 1940 because conditions had changed and because it was believed that the same goals could be reached through the use of tariff measures.

Mining Laws. The law of 1940 had declared that petroleum substances, whether found on the surface or in the subsoil, belong to the nation and that their ownership is inalienable. Exploitation could only be undertaken by the government or through a government agency or by private persons on a concession basis. If, in the process, helium was found, such a well went to the state. The concessionaire was to receive the cost of drilling plus 15 per cent. In order to encourage the production of petroleum, import taxes were removed, as well as every other municipal and fiscal tax, from all machinery and implements and the materials needed during the life of the concession. In addition, all export taxes and other taxes on the petroleum and its products which result were lifted for the first thirty-five years.

Trade Agreements. On June 10, 1939, the commercial agreement, granting unconditional and unlimited most-favored-nation treatment became effective between Paraguay and Uruguay. Concessions on livestock and agricultural products, as well as on certain manufactured goods, were granted Uruguay. Paraguayan agricultural products, lumber, textile products, medicines, tobacco, and petroleum were given favored treatment in turn.

Paraguay entered an agreement with Canada in 1940 providing for reciprocal most-favored-nation treatment. Other agreements existed with Latin-American nations. Her relationship with the United States was based on an old conditional most-favored-nation treaty signed in 1860.

Paraguayan Trade Relations. Export data for the trade of Paraguay with other countries are difficult to interpret because of the great amount of goods shipped by way of Argentina and a lesser amount by way of Uruguay. Just where these goods finally go cannot be figured with

certainty. Paraguay has purchased most of her imports, 40 to 61 per cent, from Argentina. Her other suppliers, in the order of descending rank, have been Japan, Germany, the United Kingdom, and the United States.

Argentina purchased 42.6 per cent of the Paraguayan exports and took an additional 48.9 per cent of goods in transit or 90.5 per cent of all exports in 1933 and equally large proportions during the three years that followed. In 1937, foreign traders made an attempt to get away from transshipment and to deal directly. This probably explains the great increase of Paraguayan exports that went to Germany and the United Kingdom. In 1940, Germany's purchases ceased. In that same year, the United States showed promise of becoming Paraguay's chief market.

Recent Developments in Paraguay. In 1943, a new monetary unit representing 100 of the old paper pesos was adopted. This necessitated a lowering of the ad valorem tariff rates to maintain the existing level, but other charges have had the effect of increasing the height of the tariff.

URUGUAY

Introduction. Uruguay, a country with a population somewhat over 2,000,000, was one of the first Latin-American countries to seek to encourage manufacturing. Her efforts date from about 1900. But as late as 1916 the tariff policy pursued was antiquated. The system, in short, was a relic of Spanish rule and Portuguese rule. The classifications of merchandise did not fit in with modern industry. There was a vagueness, in spite of almost 5,000 enumerations, which was made up for by catchall clauses. Many rates were excessive. Arbitrary official values, rather than actual values, served as the base. Since production methods had changed, many of these rates were unreal. Then, too, there was no coverage on numerous new products which entered the market in subsequent years. Use was also made of export duties on such items as wool, hides, and meats.

The Tariff. Tariff revision normally occurred about every three years. The tariff in recent years still retained the earlier features. It has been relatively high. Classification has been based on certain ad valorem rates under which all commodities are placed. Beverages and foodstuffs, however, are in a class by themselves. The government seeks both revenue and protection from the rates, some of which are 70 per cent ad valorem. The tariff is of the single-column type, but since 1931 the executive has had bargaining power to increase existing rates by as much as one-half against countries denying Uruguay their minimum rates or refusing to accord most-favored-nation treatment.

A special commission was appointed in the spring of 1939 to study the problem of protection to local industry. One of its tasks was to distinguish the "positive" industries from the "artificial" ones—the former being those bringing a visible benefit to the public and the latter being those

bringing only gain to the exploiters of the tariff along with other privileges. The "positive" industries, it may be assumed, were to continue to rely upon low tariffs on their raw materials, high tariffs against imported competitive products, and, if the industry was new, monopoly privileges in the local market for periods varying from five to nine years.

The government itself engaged in industry—meat, chemicals, petroleum, cement, communication, banks, insurance, port works, hotels, and pleasure resorts. It also has preferred a large number of small industries to a few large ones and has encouraged the former in various ways. It has believed in balancing its imports from any country with its exports to that country and has employed the familiar devices to that end.

Commercial Agreements. Commercial agreements of one kind or another, most of which contained the unconditional most-favored-nation clause, had been made prior to 1940 with Brazil, Spain, France, Germany, Italy, Russia, Poland, Lithuania, Finland, Belgium, Switzerland, Paraguay, Canada, and the United Kingdom. Her commercial policies were conditioned in a large degree by the fact that her principal exports consisted of animal products—wool alone accounting for more than two-fifths of her exports. Uruguay had no reciprocal trade agreement with the United States until 1942.

Export Taxes and Bounties. Uruguay also made use of some export taxes and also paid bounties on the export of certain agricultural products and meats. For example, in September, 1938, exporters of these products were to receive a bounty up to 10 pesos per ton on exports of wheat or for each 700 kilos of flour. In 1940 a commission for this purpose was set up consisting of representatives of the Ministries of Finance and Agriculture and of the Bank of the Republic. Any bounties unanimously agreed upon were to become effective immediately, while those approved by the majority were to be submitted for final approval to the two ministries.

Uruguayan Trade Relations. Prior to 1940, Uruguay found the United Kingdom to be her best customer. Annual purchases accounted for 25 to 35 per cent of her exports. The United States and Germany ranked next. Argentina, Japan, and France purchased lesser amounts. Uruguay derived her imports from many countries rather than from one or two large suppliers. The United Kingdom ranked first (16–20 per cent); the United States fitted into second place (10–19 per cent). Other suppliers were the Dutch West Indies, Germany, Brazil, Belgium, and Argentina.

United States–Uruguay Trade Viewed Quantitatively. Uruguay's principal purchases from the United States have consisted of gasoline and motor fuel (120,000 barrels in 1938), lubricating oil (29,000 barrels), tin plate (10,229,000 pounds), and passenger automobiles (473).

The exports to this country consisted of canned beef (25,772,000 pounds), flaxseed (892,000 bushels), carpet wool (990,000 pounds), and worsted type of wool (1,731,000 pounds).

Recent Developments in Uruguay. In 1942 a reciprocal trade agreement was signed by the United States and Uruguay. Reductions were given United States exports ranging from 21 to 64 per cent on some 141 items. Chief among these were lumber, office machines, food products, cigarettes, automobiles and accessories, refrigerators, and electrical equipment. Concessions granted Uruguay centered around canned corned beef, flaxseed, and wool. The agreement was of the most-favored-nation type. In 1943 the official values on which imports are taxed were raised 30 per cent. This had the effect of raising tariff rates. In 1944 a committee was authorized to revise the tariff, which is still basically that of 1888 together with such changes as have been made during the intervening years.

SUMMARY

Venezuela has had a curious political history. Her first secret election was held in 1946. She has employed an elaborate tariff system for many years. Numerous tariff revisions have moved the rates upward. The dutiable unit has been in terms of gross weight. Venezuelan rates have been among the highest in the world in order to encourage small industry and to bring about the use of domestic raw materials. Venezuela entered a reciprocal trade agreement with the United States in 1939.

Colombian international trade is a comparatively recent development. Both export and import tariffs have been used. In form, the import tariff has been of the bargaining type. Colombia entered an agreement with the United States as well as with a number of other countries. In common with other countries, there has been an emphasis on nationalism.

Peruvian economy never fully recovered from the loss of the nitrate deposits to Chile in 1879. The Peruvian tariff has been more modern in form than most others in Latin America. Rates have been high, and executive authority over the tariff has become greater with the years. The tariff supplies about 30 per cent of the revenue of Peru. Export duties are still employed.

Bolivia employs both export and import tariffs. The law of 1927 remained basic until 1940, when rates were increased through the device of the surcharge.

Ecuador's tariff has moved upward from the rates of the basic law of 1927 through increases in 1929, 1931, 1935, 1936, and 1938. Surcharges have been used to increase the effective rates. Economic conditions in 1938 caused the government to take complete control over all imports. In 1940, certain provisions of the reciprocal trade agreement with the United States were suspended for the same reason.

Paraguay had little to do with the outside world until after 1870. A basic tariff law of 1925, the work of an expert from the United States whose services were loaned by the government, has been amended by subsequent decrees.

Uruguay's efforts to build industry date from 1900, but as late as 1916 her tariff policy was antiquated. Revisions have been made about every three years. Reciprocal trade arrangements were in effect with other countries for a number of years before that with the United States was signed. Uruguay has also made use of export taxes and bounties.

QUESTIONS FOR DISCUSSION

1. What are the distinct features of Latin-American tariffs as compared with ours? (For example, the use of export taxes.)
2. What is the peculiar export problem of Venezuela, and what effects does it have on her economy and commercial policies?
3. Is Colombian economy ripe for protectionism, or are Colombian officials making a mistake?
4. What part has guano played in the economy of Peru?
5. What are the unique features of Bolivia, and how do they affect commercial policies?
6. Trace the effects on Ecuador if something should happen to the United States market for cocoa.

Chapter XXIV

POLICIES OF CENTRAL AMERICAN AND THE WEST INDIAN REPUBLICS

PANAMA

Introduction. Panama won her independence from Spain in 1821 and subsequently joined the Colombian Federation. She broke away and rejoined several times. The last severance was in 1903. Her population today consists of about 625,000 persons. Her commercial policy is shaped in a large measure by the proximity to the Panama Canal. Much of her commercial activity is concerned with the transit of goods and passengers. Her merchant marine consists of two hundred ships having a gross tonnage of 200,000 tons. Her exports are agricultural in character—bananas (the industry is owned by two United States corporations), and cacao. These two crops account for three-fifths of her exports.

The Tariff System. The Panamanian tariff is single-column in character. No preferential treatment is accorded to any nation. The rates prior to 1932 were low; 15 per cent ad valorem was typical. But high specific rates have since been imposed on imports which are similar to her own products. The law of 1934 placed some six hundred noncompetitive items on the free list, although all continued to pay the consular fee on invoices, which amounted to 5 per cent ad valorem.

On January 28, 1937, the basic tariff was modified. Forty-eight items were placed on the free list; six were transferred from the free list; rates on thirty-one items were reduced; and those on fifteen others were raised. Some protection is now granted to sugar, rice, condensed milk, liquors, soap, shoes, hats, ceramic products, and furniture. Early in 1940, a commission was appointed to study the effects of high import duties and the possibility of their reduction.

Export duties are also used in Panama. They are imposed on bananas, manganese, Perilla and nispero gum, ipecac, rubber, and timber from public lands.

The Spirit of Nationalism. Panama, too, has shown signs of nationalistic feeling. Free entry is granted machinery and raw materials needed by domestic industry. But to avail itself of this, a factory must employ 75 per cent Panamanian labor and conform to other requirements. In 1940 an executive order required all commercial establishments, regardless of

character, to display signs, posters, and all advertising copy in Spanish. The purpose was to preserve Spanish as the national language of the country. Although signs in other languages could be used, in addition, the lettering was to be smaller and less prominent than the compulsory Spanish translation. Either neon lights and other electric signs not in Spanish were to be removed or new signs in Spanish and larger in size were to be hung adjoining them. The new constitution of 1940 also emphasized language by denying the right to vote to all Negroes who could not speak the Spanish language. Other restrictions against noncitizens were also imposed in keeping with the spirit of "Panama for the Panamanians."

The Trade Relations of Panama. The United States has been a market for about 90 per cent of the exports of Panama. Other countries entering the trade and accounting for 1 per cent or more of the total exports have been the United Kingdom and Germany. The United States has also held the dominant position as the source of over half of Panama's purchases. Other suppliers prior to 1940 were Japan, the United Kingdom, and Germany.

The principal products which the United States has shipped to Panama have been cigarettes, cement and other structural material, and passenger automobiles. But the Canal Zone has been the receiver of these products, as well as motor fuel, gas and fuel oils, motor trucks, and so on.

The principal commodities which Panama has shipped to the United States have been bananas, coconuts, cocoa, and coffee. Bananas, however, have been the only export exceeding $250,000 per year.

Recent Developments in Panama. Under war powers granted the executive, some import duties were lowered and some were eliminated entirely, especially on foods. The Nationalization of Commerce Law, modeled on earlier legislation, was passed in 1941. Only licensed persons were to engage in wholesale, retail, or import trade. Certain groups such as the Chinese and Japanese were not to be given licenses, and more and more trade activities were to be narrowed to Panamanian citizens. A report of our Tariff Commission states:

> It appears that, within a year after the law of 1941 became effective, nearly nine-tenths of the country's retail establishments with a capital of less than $500 each, and more than three-fourths of the larger firms, were operated by Panamanians. Large numbers of Chinese, Japanese, and nationals of certain other countries were forced to liquidate their business, and many of them found it necessary to leave the country. Many foreigners also appear to have been eliminated from the trade by the more vigorous enforcement of earlier regulations that accompanied the resurgence of the nationalistic spirit.[1]

[1] *Economic Controls and Commercial Policy in Panama*, United States Tariff Commission (Washington, D.C.: U.S. Government Printing Office, 1946), p. 14.

In order to carry the plan through, Panama had to denounce her treaties with Germany, the United Kingdom, and Italy which pledged equal treatment of the citizens of the respective countries. British subjects were given until March 24, 1942, to liquidate their holdings. Three-fourths of the employees of any business had to be Panamanian citizens, and the same proportion of the payroll of each firm had to be paid to Panamanians. Other laws were passed pointing to the goal of reserving all domestic trade to citizens. The new constitution of 1943 incorporated these provisions but gave certain rights to residents of the Panama Canal Zone. Thus, United States citizens enjoy a status somewhat superior to other nationalities.

The full implications of this program not only for Panama but for other nations which might follow the same mercantilistic program are pointed out in another section of the report quoted above:

> The program for nationalizing domestic commerce does not have among its objectives the improvement of merchandising methods, the lowering of sales costs, or the expansion of trade itself. On the contrary, its ultimate effect may be to impair the efficiency of the retail, wholesale, and entrepôt trade. Eventually this impairment may be reflected in higher costs to Panamanian consumers and in the development of a less extensive and profitable tourist trade than the country might otherwise enjoy. Closing the market to many foreign enterprisers may retard the development of efficient technical marketing methods, and, indeed, may even serve indirectly to subsidize the more inefficient firms. The extent to which foreign enterprises are required to operate only through Panamanian intermediaries will, of course, serve to increase the cost of doing business in the Republic. The program of "nationalization" may also discourage the investment of foreign capital necessary to a progressive development of the country's resources. Moreover, failure to accord equal national treatment to citizens of all countries may eventually inspire retaliatory measures which might more than offset the special advantages now conferred on any particular group or groups.[2]

It is to be hoped that this tragic as well as dangerous reversion to sovereignty will not become general among nations. It is not a constructive use of the right of a nation to conduct its internal affairs free from outside interference. It is the negation of the one-world philosophy or even any philosophy that hopes for peaceful intercourse of nations. However, a sovereign nation today can do these things. The rest of the world stands by with much the same attitude as a group of people who dismiss the antics of one of their number with a shrug and the comment, "He's over twenty-one."

One other phase of recent commercial policy might also be mentioned. In 1942, Panama imposed an embargo on the exportation of forest products, construction materials, machinery, hardware, drugs, chemicals, rub-

[2] *Ibid.*, p. 23.

ber and rubber manufactures, paper and paper products, bottles, soap, kerosene, vegetable fibers, and so on. Later on, the embargo included everything classified as "merchandise." Exception was made of exports to the Canal Zone.

In the fall of 1946, Panama set up a permanent Tariff Commission whose duties are (1) to make a study of existing tariff laws and their effects on Panamanian economy; (2) to study the effects of international trade on the national economy through the devices of commercial treaties, tariffs, export bounties, and the part played by transportation charges; (3) to make recommendations and orientate national action on tariff problems; (4) to prepare a new tariff bill for the legislature's consideration not later than 1948 using the League of Nations' nomenclature; and (5) to determine a policy for tariff exemption in the interest of economic activity and the national standard of living.

COSTA RICA

Introduction. Costa Rica has a population smaller than that of a large city in the United States—about 600,000. The population, however, is primarily of European descent. The country is dependent on the coffee crop. Industrialization has been very slow, and the enterprises are small and on the handicraft basis. As recently as 1940 the United States vice-consul at San José mentions 2,916 so-called "industrial establishments" of which over one-third are primitive and operated by animal power. There are 71 enterprises making handsewn shoes (the law forbidding the manufacture of completely machine-made ones), 3 breweries, 114 tailors, 151 bakeries, and 190 coffee-cleaning plants. The report concludes: "There appears little reason to expect that Costa Rica will become an industrialized nation. The limited territorial extent and the small population . . . . whose purchasing power is for the most part low, could not provide a sufficient market to support extensive operations. At present, the country would have to import all needed machinery and practically all raw materials for industrial expansion."

The Costa Rican Tariff. Prior to 1939 the Costa Rican tariff was not used for bargaining. Its primary purpose is still to supply revenue, and it has succeeded in bringing in about half of what is needed for government expenses. Protective rates are found on lard and lard substitutes, wheat flour, rice, cattle, meats, dairy products, sugar, candies, beer, tallow, soap, shoes, tobacco, textiles, and ready-made clothing. An ad valorem rate of 4 per cent, under the guise of a consular fee, in addition to provincial duties and an occasional emergency rate of 10 per cent, is also applied to imports. In common with other Latin-American countries, Costa Rica occasionally decrees the free importation of equipment and materials for favored industries and at times imposes surcharges of 100 per cent against the products of a country the importation of which exceeds Costa Rican

exports to that country by more than 50 per cent during the previous calendar year.

The executive is authorized to change import duties especially on luxuries and to negotiate commercial agreements subject to legislative approval. He also has the power to bargain for most-favored-nation treatment by imposing a surtax of three-tenths of the existing duties.

Export Taxes. In 1892, Costa Rica placed an export tax of 2½ cents on each bunch of bananas. But in 1900 this tax was abolished for a ten-year period as a part of a contract which passed into the hands of the United Fruit Company. In 1910 and for ten years thereafter, the rate was not to exceed 1 cent for a bunch; and from then on until 1930, the rate was fixed at 1 cent. In 1940 the 6 per cent export tax on coffee was abolished but a tax of 10 cents per 46 kilos (United States money) was assessed to raise funds for advertising purposes. In the same year, a law was passed providing that for a period of ten years there would be no assessment of any kind on sugar exports. At the same time, duties on imported unrefined sugar were doubled. Similar exemptions were announced on fresh or canned fruits and vegetables and on canned meats and fish. In general, the export taxes have not yielded more than 5 per cent of her public revenue, although they have been imposed on chicle, fruits and vegetables, as well as coffee and bananas.

The Reciprocal Trade Agreement with the United States. In the trade agreement with the United States, Costa Rica granted reductions on 30 classifications and bound 11 others against increase, thus affecting over 200 commodities. The reductions ranged from 8⅓ to 65 per cent and covered something like 35 per cent of our exports to that country. We, in turn, bound 50 items against increase and promised to retain on the free list plantains, bananas, cocoa, coffee, deer (buck and doe) hides and skins, reptile skins, turtles, and various hardwoods in log form. These rates became applicable to France, Germany, Italy, Yugoslavia, and Norway, with which Costa Rica had unconditional most-favored-nation agreements, and became available to the United Kingdom, Spain, Eire, and Sweden, with which most-favored-nation clauses were in effect. The Norwegian treaty, effective November 19, 1939, provided for reduction of rates by Costa Rica on cod liver oil, certain herring, codfish, and other fish products. In turn, Norway agreed to import coffee in an amount not less than 699 metric tons annually and to increase this amount by 25 metric tons if in any one calendar year Costa Rican imports of Norwegian cement came to at least 50 per cent of its domestic requirements. Should the percentage of cement used reach 75 per cent, the coffee quota would be increased by 50 metric tons.

Other Aids to Industry and Agriculture. Costa Rica has sought to aid industry through various devices. In 1940, for example, all substances

and materials used in canning foods, vegetables, meats, and related products were granted a decade of exemption from all import duties, as well as from national and municipal taxes. Included are disinfectants and germicidal soaps intended to keep factories in a sanitary condition, machinery and equipment, tin plate for cans, packing boxes, and glass containers. Not included, however, are salt, alcohol, wines, liquors, sugar, and molasses.

Use has also been made of exchange control as a means of reducing imports in general and controlling the type of imports. For example, in September, 1939, presidential decree provided for preferential consideration in allotting exchange for foodstuffs, textiles, seeds, medicinal products, gasoline, machinery, and industrial raw materials. Costa Rica also employed the device of a government monopoly on the importation and distribution of gasoline. But after a decade, 1930–40, the plan was abandoned.

Costa Rican Trade Relations. Coffee accounts for about 50 per cent of Costa Rican exports, bananas for 20 per cent, and cacao beans for 8 per cent. The dominant position which the United Kingdom held as a buyer of Costa Rican products in earlier years passed to the United States which today takes more than 40 per cent of all the exports. The United Kingdom and Germany, however, played an important part as late as 1939. The United States is likewise the chief source of supply (about 70 per cent). Germany, Japan, and the United Kingdom contributed a substantial amount prior to 1939. United States exports to Costa Rica are primarily manufactured or processed goods. Chief among these are lard, flour, cotton cloth and other textiles, refined mineral oil, wax, iron and steel products, automobiles, industrial machinery, and chemical products.

Recent Developments in Costa Rica. The rates of the Costa Rican tariff, which yielded 32 per cent of the national revenue in 1942, were reduced on many items in the law of 1943 which went into effect a year later. There were, however, increased rates imposed on a long list of luxuries. Then, too, the surtax was raised from 5 to 10 per cent of the duties paid; but none of these changes was applicable to products covered by trade agreements. In 1945, tariff rates were again revised upward. Late in 1946 the Costa Rican tariff was overhauled. Various changes and surtaxes that had been added over a period of time were incorporated in a new schedule, which showed a further upward trend for revenue purposes.

HONDURAS

Introduction. Honduras has a population of less than one million persons. Of these, 67 per cent are illiterate. Primarily agricultural, her chief exports are bananas, coffee, and coconuts. Industry has not been

developed beyond satisfying a small part of local needs. Honduras, nevertheless, has long had a high tariff system. Successive laws have increased the rates of preceding laws by 20 per cent or more. The tariff of the early eighties consisted of twelve schedules. Schedule 1 was the Free List. Beginning with Schedule 2 and running through 12, all goods were classified according to the tariff rate which they had to pay. For example, in Schedule 2 were placed all articles paying a rate of 2 cents per pound, bale, barrel, or package. In Schedule 3, paying 3 cents for a pound or other unit, were found sugar, starch, molasses, hard bread and crackers, and coffee. The highest schedule included items assessed at two pesos per unit. Like other Latin-American countries, Honduras has made her tariffs very detailed. That of 1917 contained 3,293 items.

The Present Tariff. The present tariff went into effect in 1938. It is the three-column type. The minimum tariff is made applicable to all countries whose purchases of Honduran products amount to at least 50 per cent of the value of their sales to Honduras. The intermediate tariff rates consist of the basic rates of the minimum tariff plus a surcharge of 25 per cent. This applies to countries whose imports from Honduras are between 25 and 50 per cent of their exports to that country. The maximum tariff which is higher by a 50 per cent surcharge is faced by countries purchasing less than 25 per cent of the value of their exports to Honduras. The law directs, however, that raw materials and prime necessities regardless of the country of origin will be subjected to the minimum rates. In 1938 the countries enjoying the minimum rate because of their purchases during the previous fiscal year included the United States, France, Belgium, the Netherlands, Mexico, Costa Rica, Guatemala, Nicaragua, El Salvador, and British Honduras.

The intermediate rate applied only to Czechoslovakia, while all other countries faced the maximum tariff. Listed as raw materials and necessities, and therefore entitled to the minimum rates were prepared and preserved meats, rice, wheat, fresh fruits, live plants, plant seeds, hemp and flax, medicinal flowers and roots, spices, tea, wool, resins, gums and vegetable wax, petroleum, crude oil, gasoline, kerosene, copper, lead, marble, sulphur, and printed and engraved music. In recent years, Honduras has obtained from 30 to 40 per cent of her normal revenue from the tariff.

Nationalism. The influence of nationalism has also been felt in Honduras. Two illustrations will suffice to show this tendency. In 1936 a new agrarian law was passed which forbade the acquisition of national land, surface, subsoil, and water rights by foreign companies not domiciled in Honduras. Another law placed a tax on all money carried out or sent out of Honduras other than monies used for payment for merchandise and remittances to students abroad, sick persons, and the diplomatic and consular corps. Even insurance premiums were taxed. Foreign travelers

are also subject to tax on the money they take with them unless they have previously shown, upon arrival, that they are possessed of such funds.

Reciprocal Trade Agreement. The United States and Honduras signed a reciprocal trade agreement in 1935. It resembled the other trade agreement and included the principle of the most-favored-nation treatment, unconditional form. It is an interesting example of a bargaining agreement with a country, 99 per cent of whose exports were already entering the United States duty-free. Tariff concessions granted by Honduras affected thirty-seven classes of commodities. The reductions numbered seventeen, while assurance against increase was given on the others. Reductions covered meat and dairy products, dried fruits, canned foods, textiles, soaps, medicines, and pharmaceuticals. Cereals, fresh fruits, lumber, automotive products, hand tools, and tanned leather were bound against any increase during the life of the agreement.

The United States, in turn, gave assurances that the free trade list would not be disturbed. The items thus bound included coffee, bananas, cocoa beans, sarsaparilla root, and raw deerskins. Reductions were granted on balsams, pineapples, and guava and mango pastes and pulps.

Trade Relations of Honduras. For many years the United States has purchased more than three-fifths of the exports of Honduras. Beginning in 1934, the figure has been 80 per cent or more. It reached 95.6 per cent in the fiscal year 1939–40. Germany and the United Kingdom were the only other countries of any importance as buyers. German purchases have declined from 10 per cent or more in the 1930's to less than 3 per cent beginning with 1934. In the fiscal year 1939–40, they fell to a low of one-half of 1 per cent. British purchases followed a similar pattern, becoming negligible after 1935.

Honduras has always purchased the bulk of her supplies from the United States—76.1 per cent (1931–32), 66.4 per cent (1935–36), and 62.7 per cent (1939–40). No one country has held second place consistently. In 1931–32, the United Kingdom supplied 3.9 per cent, Germany, 3.6 per cent, and Japan, 0.4 per cent. In 1933–34, the United Kingdom again led with 10.6 per cent, while Germany and Japan tied with 3.2 per cent. In 1934–35, Japan led with 10.6 per cent, the United Kingdom came next with 6.3 per cent, and Germany trailed with 3.4 per cent. Japan topped the other two again in 1935–36, 1936–37, and 1939–40 when she supplied 13.2 per cent of Honduran imports.

Recent Events in Honduras. There was but one recent event of significance for international trade in terms of Honduras. The tariff was revised upward in 1945.

GUATEMALA

Introduction. Guatemala has a population of about 3,000,000 persons, of whom 1,800,000 are Indians of a type more nearly aboriginal than any

other in the hemisphere. About 90 per cent of the population is illiterate. Guatemala is primarily a one-crop country, coffee being its chief export. It also produces bananas, chicle, and sugar; but the latter is consumed mostly at home. The dominance of foreign capital has been very evident in the production of coffee and chicle.

The Tariff. The Guatemalan tariff has been essentially used for revenue purposes, and, like other Latin-American tariffs, has thousands of items included. At the opening of the century all products of El Salvador, Honduras, Nicaragua, and Costa Rica were admitted free. Goods from other countries were subjected to rates varying from 11.5 per cent ad valorem to 90 per cent. The latter rate applied to 168 articles and classes such as woolen kerchiefs, iron safes, nails, silk dresses, and fishhooks.

In 1926–27, import duties accounted for 45 per cent of the federal income, while export taxes brought in another 19 per cent. In 1936–37, customs duties brought in 52 per cent of the budgetary revenues. This reliance on revenue has interfered with the use of the tariff for bargaining purposes because any reductions in rates might upset national finances. The government has made use of tariff rates to bring about the balancing of trade as well. Under decrees of 1935 and 1939, countries with which Guatemala had an adverse trade balance faced a customs surtax of 100 per cent. In 1940, British Honduras, China, England, Honduras, Hungary, India, Ireland, Japan, Panama, Scotland, Russia, and Turkey came under the classification.

In common with other Latin-American countries, Guatemala levied export taxes on such products as coffee, bananas, chicle, lard, rubber, hides, lumber, and so on. These taxes were added to the price of the goods to form export values—a fact that must be kept in mind in interpreting export figures.

Trade Agreements. In the reciprocal trade agreement with the United States, Guatemala was given assurance against tariff increases on honey, pineapples, mango and guava paste, while certain items which constituted the bulk of the exports (as much as 99 per cent) to this country were bound to the free list—bananas, plantains, coffee, hardwood logs, and raw deerskins.

Guatemalan concessions affected 66 tariff items. Reductions were made on 14, and assurances against increases were given on 52 others. Among the commodities enjoying reductions were meats, powdered milk, sardines, certain fish and shellfish, certain cereals, impure cottonseed oil, rubber tires, iron and steel furniture, and wireless telephone, telegraph, and receiving apparatus.

Guatemala also is a party to trade agreements with El Salvador and Canada. The former virtually puts the two countries on a free-trade basis, as far as their mutual commerce is concerned.

Trade Relations. Except for export trade with the United States and Germany, Guatemala had developed few markets up to 1940. Since 1936 the United States has accounted for 60 to 90 per cent of all exports from that country. These have consisted primarily of bananas, coffee, and chicle. German participation declined steadily from the thirties onward. Guatemala has obtained most of her imports from the United States—42 per cent in 1936 and 74 per cent in 1940. Germany, the other supplier, lost ground after 1937. In recent years, only insignificant quantities of goods have been purchased from the United Kingdom, France, and Italy.

NICARAGUA

Introduction. Nicaragua, the most sparsely populated country of Central America, won her independence in 1822 but formed a part of the Mexican Empire until 1838. Her population is made up of 70 per cent Indians and mixed races. Coffee is the leading export crop, accounting for about half of all exports. Before World War II most of this product was taken by European markets; but since 1941, all has come to the United States. Bananas had played an important part in the export market until 1937, constituting about 25 per cent of the exports. This product no longer is of significance. Other crops entering the export trade are sesame, sugar, rice, and cotton. Nicaragua's only important export of a non-agricultural nature is gold.

The Tariff. A basic tariff law was passed in July, 1888. It was followed by a new law in 1898, but, when the latter was annulled, the former again went into effect. In 1901, all rates were doubled by decree. An important revision occurred in 1932.

Nicaragua has looked upon the tariff primarily as a source of revenue—usually about one-fourth of the annual income. Protective rates have been imposed on cigarettes, beer, soft drinks, soap, candles, shoes, and clothing.

Trade Relations with the United States. In 1936 a reciprocal trade agreement was entered into with the United States. In addition to a general assurance of unconditional most-favored-nation treatment and against import quotas, new internal taxes, or other legislation tending to nullify the effectiveness of the agreement, Nicaragua reduced import duties on lard; condensed, evaporated, and dried milk; canned and dried fruits and canned vegetables; medicinal preparations; paints and varnishes; and rubber heels. The reductions ranged from 17 to 67 per cent. Many items were to remain on the free list, while rates were bound against increase on wheat flour, certain types of leather, pharmaceutical products, batteries, transmitting and receiving apparatus, typewriters, dried beans, pneumatic tires and tubes, and cotton hosiery. Commodities included in the agreement accounted for 25 per cent of our export trade to Nicaragua.

Our concessions to Nicaragua included the continuation on the free list

of bananas and coffee and a few other items, representing 98 per cent of Nicaraguan exports to this country. The only duty reduction was on lumber known as "Peru balsam."

On February 8, 1938, the two governments agreed that in view of the financial difficulties in Nicaragua, the provisions of the agreement dealing with tariff concessions would cease to be in force effective on March 10 of that year. Assurances were given, however, that Nicaragua would not raise basic rates and would take up at some future time the question of the renewal or replacement of the deleted provisions.

In a further attempt to meet the emergency conditions, Nicaragua adopted a very elaborate system of exchange restrictions in place of the original plan first used in 1931. Under the decree issued in 1939, all imports and exports of merchandise, as well as the sale of imported and domestic products were placed under executive control. Originally intended to last but a year, this extraordinary authority was renewed in 1940.

The United States has been the leading customer, with France, Germany, and Holland following in that order. We have also occupied the position of chief supplier. At the time of World War I we supplied over 80 per cent of the imports. Later the share dropped to 60 per cent. Germany and the United Kingdom occupied second and third places respectively.

EL SALVADOR

Introduction. The population of El Salvador is something in the neighborhood of 1,700,000. Of this number, 80 per cent is of mixed races—Indian and white. Coffee is the main export (90 per cent), with sugar ranking next. Other exports are cotton, henequen, balsam, and tobacco.

The Tariff. In May, 1937, the tariff of El Salvador was changed by the abolition of the intermediate rates and by the modification of the conditions under which the maximum rates would apply. Minimum rates were to apply to the products of countries that imported from El Salvador as much or more than they exported to that country. The maximum rates exceeded the minimum by a surtax of 200 per cent of the duty. Under this system a periodic announcement must be made indicating the position of each country. In 1940, Argentina, Brazil, Bolivia, Colombia, Cuba, Chile, Ecuador, Haiti, Panama, Paraguay, Peru, the Dominican Republic, and Venezuela enjoyed the minimum rates. These rates also applied to all Central American countries except Honduras, with which El Salvador has a special free-trade agreement. The tariff has been the source of about 60 per cent of the country's revenue.

The Reciprocal Agreement with the United States. El Salvador entered a reciprocal agreement with the United States effective in May, 1937. Reductions in rates were granted on the following imports from

the United States: hams; canned salmon and mackerel; fresh apples; grapes; pears; dried prunes and raisins; canned peaches, pears, and salad fruits; canned asparagus, peas, corn, tomatoes, and tomato juice; oatmeal and unsweetened crackers; rough and dressed lumber; tires and tubes of all kinds; rubber hose; and phonograph records. Wheat, canned pork, and patent and other upper leathers were bound against increase. These concessions, ranging from 50 to 83 per cent, representing about 10 per cent of our exports to El Salvador, were gained through the assurance that coffee would remain on the free list, as well as cocoa beans, deerskin, reptile skins, and tortoise shell. Lower rates were also granted on balsam, honey, and mango and guava preserves. The trade agreement thus covered virtually all the products that El Salvador exports to the United States.

Other Trade Agreements. Agreements have also been made with Norway, the Netherlands and its possessions, Italy, and France. In each case the most-favored-nation clause was included with an exception in favor of agreements with Central American countries and Panama. A supplementary agreement with Norway assured the purchase of a certain amount of coffee from El Salvador in return for reductions on cod liver oil and certain fish products. Additional coffee purchases were made contingent upon larger purchases of Norwegian cement.

El Salvador's Trade Relations. The United States has absorbed an increasing percentage of El Salvador's exports. During the thirties this amounted to 60 per cent, despite the fact that about one-third of the coffee crop regularly found a European market. The leading European customer prior to 1940 was Germany. The United States was the chief supplier, sending about 40 per cent or more of El Salvador's imports. Germany, the United Kingdom, and Italy ranked second, third, and fourth in the import market.

Recent Developments in El Salvador. In 1943, El Salvador increased the export tax on coffee from $0.43 to $1.25 on 100 pounds. In 1945, rates were also raised on corn, beans, sole leather, and cotton thread.

HAITI

Introduction. The population of Haiti, numbering about 3,000,000 is mostly Negro. Haiti is the most densely populated of the American republics. Unlike other Latin-American countries, the language used is French—or, more accurately, a French patios. The political history of Haiti has been marked by violent unrest. It has been described as being in a state of almost constant revolution prior to 1915. In that year the United States intervened, and our troops remained there until 1934. During this period there were two sharp outbreaks against the United States authority —from 1918 to 1920 and again in 1930.

The customs have been handled and the customs laws developed by a

representative of the United States during these years. The tariff has been an important source of revenue, bringing in 72 per cent in 1926–27, 82 per cent in 1933–34, and 79 per cent in 1937–38.

Haitian Trade. Haiti, which lies entirely in the Torrid Zone, is essentially a country with a one money crop, namely, coffee. From 1926 to 1931, for example, coffee accounted for over 75 per cent of the total exports. The remaining exports included cotton, logwood, sugar, cacao, and sisal. More recently bananas figured in this trade. The importance of coffee has been declining.

The Haitian Tariff. Tariffs, both import and export, have been used in Haiti primarily as a source of revenue. During the period of the twenties and the thirties, export rates yielded from 20 to 30 per cent of the revenue. Early tariffs were typical of Latin-American laws in general. That of 1905, for example, listed 1,521 items. The present system is based on the law of 1926.[8] Modified by a decree in 1935, the tariff is of the three-column type—maximum rates against the products of countries not having the most-favored-nation agreement with Haiti; minimum rates which might be half as high; and conventional rates fixed by agreement or treaty. The minimum rates apply to all American republics.

One of the unusual features of Haiti's tariff is the alternate use of ad valorem and specific rates in such a way as to bring in the maximum revenue at any given time. The former is employed when prices are rising; the latter when the price level is declining. Thus, it is pointed out, Haitian revenue during the period of the thirties remained fairly stable. Use has been made of surtaxes as well. For example, in 1932 a surtax of 5 per cent was placed on all imports. This figure was doubled in the spring of 1937 and raised to 20 per cent at the end of the year.

Although the revenue character of Haitian tariffs is to be emphasized, some protection to industry has resulted. Appreciable protection has been given to sugar, lard substitutes, and tobacco.

In 1926, export duties were imposed on more than thirty items including forest products, alcohol, cacao, coffee, wax, copper, cotton, fruits, guano, corn, and raw sugar. In 1929 the executive was given authority to reduce or eliminate such taxes. Some changes were made, but some rates were increased as well. The taxes on coffee, bananas, sisal, and cotton accounted for more than 90 per cent of the yield in recent years. Haitian export taxes have long been criticized because they constitute a burden on export trade. In the decade ending in 1939, the duties collected were equivalent to 18 per cent of the total value of exports.

It is interesting to note that the United States exercised a partial control

---

[8] *Economic Controls and Commercial Policy in Haiti*, United States Tariff Commission (Washington, D.C.: U.S. Government Printing Office, 1946).

over Haitian customs from 1915 to 1941 as noted above. In 1915, as a way out of serious financial difficulties as a result of which international creditors became restive, Haiti entered an agreement with the United States under which a financial adviser and general receiver was appointed who exerted broad jurisdiction over the budget. Haiti was not to increase her public debt or modify her tariff without the consent of the United States. In 1933 the functions were transferred to a fiscal representative nominated by the United States. In 1941, formal supervision came to an end.

Commercial Agreements. By 1940, Haiti, on the repeated urging of the advisers, had entered treaties of the unconditional most-favored-nation type or agreements with Italy, the Netherlands, Germany, the United Kingdom, the United States, Belgium-Luxemburg, Switzerland, Canada, Denmark, and France. The treaty with France was significant because of the close tie-up between France and Haiti. The former was Haiti's best customer, and there was the tie of language previously mentioned. First entered in 1930, the treaty provided special reductions in tariff rates against France in return for minimum duties on Haitian exports. Modified in 1934, the treaty expired in 1935. An interim of three years followed without an agreement, owing to declining purchases by Haiti and French indignation over a decree limiting retail trade to Haitian citizens. A new agreement in 1938 granted France reductions of one-third on a large number of commodities. Haiti was given in return a substantial annual import quota on coffee and a certain amount of most-favored-nation treatment.

The reciprocal trade agreement with the United States went into effect in 1935. Haiti reduced tariff rates on thirteen classifications, conditional reductions on three others, and bound against increase another nineteen. Reductions ranged from 25 to 66 per cent. The United States, in turn, bound seven items on the free list and reduced rates on four products.

Trade Relations. During the thirties, the United States accounted for more than half of Haiti's imports while constituting a market for 14 to 28 per cent. France, in turn, although buying almost half of Haiti's exports in 1936, took but 16 per cent in 1937. In 1936 she supplied only 5 per cent of Haiti's imports. This share fell to 2 per cent in the next year. This change reflected the fact that France, which had been the chief buyer of Haitian coffee, took very much less because of the ending of the treaty between the two nations. Other suppliers included the United Kingdom and Japan, while other important customers for Haitian exports numbered the United Kingdom and Belgium.

United States–Haitian Trade. The United States became the chief purchaser of Haiti's coffee, bananas, cacao, goatskins, molasses, and rum. Since most of the Haitian imports consist of necessities for a population

of low income, exports from the United States have consisted mainly of cotton goods, wheat flour, some manufactures of iron and steel, and mineral oil.

Recent Developments in Haiti. In 1940, Haiti reduced her export duty on coffee by one-third; but later on the rate was restored. A similar tax on sugar, suspended in 1935 and reimposed in 1939, was raised. Since 1945, this rate has approximated 13 per cent ad valorem. In 1944, the treaty with the Dominican Republic ceased to have effect, having been denounced by Haiti the previous year. Haitian duties remained fairly stable. Each year, some reductions have been announced. In 1943, Haiti granted her minimum tariff rate to all of the American republics.

THE DOMINICAN REPUBLIC

Introduction. The Dominican Republic, with a population of 1,970,000, includes a minority of white persons. Illiteracy is high, with 90 per cent of the population unable to read and write. Like its neighbor, Haiti, this country had given the control of its fiscal problems between 1905 and 1941 to a financial adviser and receiver-general of customs appointed by the President of the United States. In the Trujillo–Hull Treaty, provision was made for a bank to take over the receipt of all revenues. The economy of the country is tied to sugar, cacao, coffee, and tobacco exports. The cultivation of sugar is largely under the control of foreign capital which also owns all of the banking facilities.

The Tariff. The tariff of the Dominican Republic has been an important source of revenue, accounting for 27 to 32 per cent in recent years. The present tariff is based on the law of 1920. It is single column in form and is applicable alike to all countries, although some conventional reductions have been made. In addition to import duties, rates are also assessed on the use, sale, and consumption of some 250 products, thus bringing the total yield of the tariff to about 50 per cent of the revenue needs of the government.

Under the law of April, 1935, the executive has the power to increase, reduce, or abolish these latter taxes and to offer reductions ranging from 5 to 90 per cent in exchange for concessions. Protective rates were placed on rice, shoes, shirts, hats, furniture, and beer. At the end of 1939 most duties were increased by an additional duty of 2.5 per cent. This was regarded as a means of raising additional revenue during the period of world conflict. The executive was also given power to regulate the importation, exportation, sale, and distribution of all items of prime necessity. Named in the law were bread, meat, fish, milk, butter, cheese, coffee, chocolate, eggs, edible fats and oils, sugar, salt, cereals, vegetables, other articles considered essential for human consumption, coal, and medicines. Under this authority, an import tax was placed on coffee and its consumption within

the country. In addition, its production, sale, and exportation was made subject to control.

The law of 1920 made permissible the export of all commodities duty-free, but various export taxes were imposed later on. In 1936, a tax was levied on all exports and an additional tax on export cargo manifests. In 1938, special rates were levied on wood and wooden containers; in 1940, on sugar and molasses. The latter rate was fixed at 20 per cent of the amount by which f.o.b. sales price at the Dominican ports may at any time exceed $1.50 per 100 pounds for raw sugar and $2.75 for refined sugar. The cargo tax on exports have yielded about $500,000 annually.

Export standards were established in June, 1940, for bananas in order to remove any dissatisfaction on the part of foreign buyers. The law specified that no bananas were to be exported in stems having less than six hands, as well as none that were not absolutely clean and free from disease, black marks, bruises, and all foreign matter, and none that were ripening or deteriorating or not fully developed.

Trade Agreements. The Dominican Republic entered most-favored-nation agreements with France and Spain in 1935 and 1936, but neither was allowed to run beyond a short period. Commercial relations with the United States went back to 1924 when a most-favored-nation treaty of the unconditional type was entered. In 1940, a commercial agreement was signed with Canada providing for the reciprocal most-favored-nation treatment and for the exemption from Dominican import taxes of some Canadian products. The free entry of Canadian wheat was likewise bound.

Trade Relations. The United States has served as the supplier of half of the imports of the Dominican Republic. The rest of the market up to 1940 was shared mostly by Japan, Germany, and the United Kingdom. The United States and the United Kingdom have each purchased about one-third of the country's exports. Other buyers have been France and Germany. With the beginning of World War II, Canada and the Dutch West Indies took over the portion formerly held by Germany.

Recent Developments in the Dominican Republic. After 1940 no basic changes were made in the tariff, which continued to be the chief source of revenue. Of the total revenue, 20 per cent came from export taxes. The cargo tax on exports was increased by more than 30 per cent. In 1945 a tax was levied on imports to raise funds for certain public works. This use of the tariff is not uncommon in Latin America. In 1941, most-favored-nation treaties were entered with Canada and Haiti.

CUBA

Introduction. The population of Cuba is estimated at 4,779,000. Its position as a nation dates from the Constitution of 1901, which was adopted during United States occupancy. But even prior to this date, the

tariff was an important source of revenue, bringing in more than half of the government's receipts. Until 1940, the tariff has continued to yield more than one-third. Cuban prosperity has depended in a large measure upon the price of sugar[4] and to a lesser extent on that of tobacco. These two products together have accounted for as much as 90 per cent of her exports. The United States normally buys about two-thirds of the sugar and nine-tenths of the molasses.

The Cuban Tariff. The Cuban tariff has always had its special relationship to the tariff of the United States. Cuban commerce has enjoyed special consideration as a result. In 1927 a tariff law was passed "inspired by a sentiment reasonably protective of our principal industries . . . . thus responding to the desires long since expressed by the Cuban industrial classes." Thus, Cuba embarked on a system of protection as well as a path of nationalism.

The effects of the program suggest a fertile field for inquiry by tariff students. The act of 1927 imposed increased duties, some of which were almost prohibitory, on agricultural and industrial products alike. Among the former were eggs, jerked beef, corn, coffee, lard, pork, hams, milk, butter, cheese, beans, peas, onions, and potatoes. Some of these had ranked among the leading imports. But by 1940, Cuba had become practically self-sufficient. The importation of these items declined precipitously—a decline ranging from 50 to 99 per cent. Imports, which previously had supplied more than half of the total consumption, had declined by more than 90 per cent.

Industrially, protection likewise seemed to have accompanied a degree of self-sufficiency. This was true in the case of shoes, cement, and various kinds of canned goods. Other industries that showed growth were those producing paints and varnishes, textiles, cast-iron pipe, nails, matches, furniture, cosmetics, soaps, candles, and salt. "Between 1926 and 1939," according to a report of the Tariff Commission, "imports of nearly all of these items declined by more than 50 per cent, and the majority of them by more than 90 per cent."[5]

The act of 1927 was modified upward in 1930, 1931, and 1932. Higher rates were placed on agricultural products and some industrial products such as cotton textiles, paper products, cast-iron pipe, and petroleum products. In 1935, Cuba established a three-column tariff—maximum, minimum, and intermediate. Her rates for imports from the United States form a fourth column and are arrived at by applying percentages of re-

[4] For example, exports of sugar, raw and refined, were valued at $258,619,737 in 1945.

[5] *Economic Controls and Commercial Policy in Cuba,* United States Tariff Commission (Washington, D.C.: U.S. Government Printing Office, 1946), p. 7. See also *Problems of the New Cuba,* Report of the Commission on Cuban Affairs (New York: Foreign Policy Association, 1935).

ductions to the lowest rates that are assessed against the imports from all other countries. These reductions run as much as 20 to 60 per cent. In recent years, Cuba has found it advisable to determine her tariff treatment in terms of her trade balances. Her minimum rates are accorded only to those countries who purchase from Cuba an amount equal to at least one-half the value of what Cuba imports from them. Maximum duties that are double the minimum rates are assessed against any country, the purchases of which are less than one-fourth of its sales to Cuba. The intermediate rates, which are one-fourth higher than the minimum, are made applicable to countries that purchase from Cuba an amount more than one-fourth but less than one-half the value of their exports to Cuba. Cuba has sought commercial agreements promising the minimum rates to any country engaging to purchase an amount equal to 50 per cent of her exports to Cuba in the same year.

From time to time, the status of each country was fixed by presidential decree. In 1938, minimum rates were applied to over forty countries and regions. The intermediate rate applied to goods from Austria, Hungary, Eire, and Italy, while the maximum rates were directed against the Sudan, Arabia, the Belgian Congo, Brazil, British Africa (except the Union of South Africa), British India, China, Czechoslovakia, Egypt, Greece, Japan, Mexico, various Netherlands possessions, Newfoundland, New Zealand, Palestine, Paraguay, the Philippines, Portugal, Rumania, Siam, Turkey, Venezuela, and Yugoslavia.

In 1940 the minimum list was about the same length. The intermediate applied only to Australia and Germany. The list subject to maximum rates remained the same except for Brazil, British Africa, New Zealand, Portugal, Venezuela, Turkey, and a few others that found themselves enjoying one of the other rates.

Cuba has not made general use of export duties. When employed, they have been the result of special legislation and usually for a specific purpose announced in advance. There have been export taxes imposed on money or its equivalent, molasses, certain game animals and birds, mineral fuels, and hides.

The Cuban executive was shorn of his vast power to modify tariff rates as a result of a decision of the Cuban Supreme Court in 1935. Full power was returned to the legislature. In the same year, a Tariff Commission having advisory powers was re-created.

Trade Agreements. The first treaty granting preferential treatment to goods of the United States and Cuba went into effect in 1903. Cuba granted reductions on all United States exports except tobacco. The United States reduced all rates on Cuban goods by 20 per cent. In 1934 a new trade agreement led to the reduction and binding against increase of more than 400 specified items on the part of Cuba in return for

preferential rates on 35 items. In 1939, a supplementary agreement went into effect dealing primarily with tobacco and sugar.

In recent years Cuba has entered treaties with the United Kingdom, Portugal, Italy, Chile, France, and Spain. The treaty with the United Kingdom promised reciprocal most-favored-nation treatment, exception being made for Cuban–United States preference. The agreement with Portugal also recognized the special privileges granted Spain and Brazil and its frontier traffic. The Italian treaty placed much more emphasis on trade balancing as a necessary factor for its continuance. For the first year of its application, Italy fixed the total value of Cuban imports at 6,000,000 lire—2,400,000 for coffee; 1,200,000 for cacao; 1,200,000 for molasses; 250,000 for skins unfit for furs; 850,000 for raw and unmanufactured tobacco; and 100,000 for other goods. Quotas for succeeding years were also provided.

The Spirit of Nationalism. Changing world conditions have had their influence on Cuba. The new constitution which went into effect in 1940 provided for the granting of a monopoly and other aids to anyone who, within two years, offered

> to establish a new principal or auxiliary industry or to manufacture, elaborate, or prepare articles appropriate for consumption or for export which at present are not produced or prepared within the national territory or the average production of which in the last 5 years was less than 15 percent of the national consumption in this time, the article or product being specified by the expression of the item of the tariff in force in which it is classified or contained; provided that the applicant obligates himself to construct, saving force majeure, within the term of 18 months from the granting of the patent one or more factories or to open and enlarge the existing ones with a capacity for producing the article involved in the year following said term in a quantity sufficiently large to cover a minimum of 80 percent of its national consumption, and guarantees said obligations with a cash security equivalent to 3 percent of the sum declared in the customhouses as the sum of all imports of said article during the 12 months preceding the promulgation of the present Constitution up to a maximum limit of said security of $50,000.

The constitution also states that monopolists must make use of domestic materials and supplies whenever possible, but it recognizes that some importation will be necessary:

> The owner of a patent of industrial introduction shall have the right during all of the time the patent is in force to import without limits and restrictions the machinery and materials intended for the installation of the industry, as well as all the prime materials employed and utilized in the production, elaboration, and preparation of the article in question, if they are not on the free list with a rebate or reduction of 80 percent of the tariff imposts and duties which may be applied to them in accordance with the tariff in force at the date of

the granting of the patent; and during the life of the latter no change whatever in said exemptions or imposts or duties shall be made, nor in the duties, imposts, charges, or contributions of an internal kind which may apply at said date to such imports after they have entered the national territory, or to the industries protected by the patent, the articles produced under the patent being exempt from imposts, duties, charges, or levies, internal or any other kind of the State, province, or municipality, different or greater than those payable on similar articles of national origin or from another foreign country; and in no case shall there be laid down provisions prejudicing the rights protected by the patent,

TABLE 43

SOME OF THE PRINCIPAL UNITED STATES EXPORTS TO CUBA, 1938–40*

COMMODITY	UNIT	QUANTITY		
		1938	1939	1940
Lard	1,000 lbs.	47,454	55,431	67,401
Wheat flour	1,000 bbl.	989	1,045	1,015
Milled rice	1,000 lbs.	204,602	209,253	289,561
Cotton, raw	1,000 lbs.	5,413	10,854	3,318
Cotton yarn	1,000 lbs.	2,134	3,207	3,329
Newsprint and uncoated book paper	1,000 lbs.	7,970	9,382	11,311
Wrapping paper	1,000 lbs.	6,856	4,674	5,594
Writing paper	1,000 lbs.	4,591	5,308	6,912
Bituminous coal	1,000 tons of 2,240 lbs.	310	261	230
Crude petroleum	1,000 bbl.	905	1,141	822
Motor fuel	1,000 bbl.	776	530	529
Concrete reinforcement bars	1,000 lbs.	6,368	14,535	14,936
Other iron and steel bars	1,000 lbs.	12,393	16,740	19,770
Steel sheets, galvanized	1,000 lbs.	7,199	10,508	9,326
Tin plate and taggers tin	1,000 lbs.	17,911	23,407	24,362
Motor trucks, busses and chassis, new	Number	1,859	1,096	1,260
Passenger cars and chassis, new	Number	2,702	1,941	2,517

* Selected from "United States Trade with the Latin American Republics in 1940," *International Reference Service*, Vol. I, No. 25 (May, 1941), pp. 11–16.

nor shall the latter be altered, suspended, or annulled, unless it has expired or its terms have not been fulfilled, but in every case a decision must previously be handed down by the proper courts of justice.

It is interesting to note that even before the constitution became effective, about one hundred applications had been filed for these exclusive industrial privileges. In 1940 a bill was introduced to establish a merchant marine as a further step toward self-sufficiency. The government was to guarantee a minimum profit of 10 per cent on the capital invested. The companies involved were to be exempted from all national taxes for a period of five years. All goods shipped in the Cuban merchant marine were to enjoy a reduction of 10 per cent in Cuban consular fees.

Trade Relations. The United States has regularly absorbed over 75 per cent of Cuban exports and has supplied about the same percentage of Cuban imports. The United Kingdom has been the other major customer for Cuban exports but has held an unimportant position as supplier. France and Germany have been some of the other sources of Cuban imports.

United States–Cuban Trade Viewed Quantitatively. Tables 43 and 44 show in terms of physical units the commodities that have entered the trade channels of the two countries and that in the year 1940 were valued in terms of $250,000 or more. The imports from Cuba have been agri-

TABLE 44

SOME OF THE PRINCIPAL UNITED STATES IMPORTS FROM CUBA, 1938–40*

COMMODITY	UNIT	QUANTITY		
		1938	1939	1940
Bananas	1,000 bunches	4,227	4,790	4,375
Sugar	Million lbs.	3,758	3,745	3,812
Molasses not for human consumption	1,000 gal.	130,041	160,386	238,896
Coffee	1,000 lbs.	7,587	12,825	8,291
Tobacco, cigar leaf filler	1,000 lbs.	9,627	10,387	11,956
Sisal and henequen	Tons of 2,240 lbs.	3,447	7,558	11,422
Iron ore	1,000 tons of 2,240 lbs.	149	270	220
Manganese ore	1,000 lbs.	137,837	115,849	143,725
Copper	1,000 lbs.	19,349	11,717	22,719

* Selected from "United States Trade with the Latin American Republics in 1940," *International Reference Service*, Vol. I, No. 25 (May, 1941), pp. 16–18.

cultural and mineral, while the exports to Cuba have not differed from those entering our trade with other Latin-American countries.

Our exports to Cuba before the war consisted to some degree of foodstuffs. We also sent some structural material and manufactured products (Table 43). Our imports were primarily sugar and molasses. In addition to other agricultural products, we also imported manganese and copper in substantial amounts (Table 44).

Recent Developments in Cuba. Cuba entered a supplementary reciprocal trade agreement with the United States effective in 1942. The first agreement of 1934 was amended in 1939 and again in 1941. In the most recent agreement, which again remained exclusively preferential and was not to be extended to any other country, Cuba granted additional concessions by binding eight rates against increase and reducing thirty others. Included in the reductions were tires; certain fresh, dried, and preserved fruits; certain canned vegetables; edible and industrial cornstarch; and some types of office furniture. The United States granted concessions on

mangoes, marble chip or granito, drugs of animal origin, fruit pastes, and certain tobacco products. The new rate on Cuban sugar (always of great significance in the international market) was fixed at 75 cents on each 100 pounds of 96-degree sugar.

In 1940 the Cuban treaty with Portugal ended. In the next year, a reciprocal most-favored-nation treaty was signed with Argentina. In the same year a surtax of 20 per cent was imposed on duties and existing surtaxes. In 1942, Cuba suspended the operation of her rigid Import Control Law which was first used in 1935.

The future of Cuban trade has been described in these terms: "Because of Cuba's heavy dependence on the export trade, its economy is especially vulnerable to the trade restrictions of other countries. It is greatly to the country's interest that the barriers which increasingly obstructed the flow of international trade during the period between the two wars should be lowered rather than heightened. Like other trading nations of the world, Cuba will benefit materially if postwar commercial policies, at home and abroad, are such to contribute to a general revival and expansion of world trade."[6]

SUMMARY

Panama's tariff prior to 1932 was a very moderate one, with rates of 15 per cent typical, and applicable to all nations alike. Subsequently, high rates were imposed on products similar to those domestically produced. Export duties were also used. Panama has recently fostered an extraordinary degree of nationalism.

Costa Rica's tariff has been used primarily for revenue purposes—bringing in about half of the government's expenses. Export tariffs have been yielding about 5 per cent of her revenue. Costa Rica has a reciprocal trade agreement with the United States.

The present tariff of Honduras went into effect in 1938. Its minimum rates apply to countries whose purchases amount to at least 50 per cent of the value of their sales to Honduras. The tariff has accounted for between 30 and 40 per cent of the normal revenue. A reciprocal arrangement was signed with the United States in 1935.

Guatemala has looked to the tariff essentially as a revenue producer. Her export taxes have likewise served this purpose. This reliance has prevented her from using the tariff for bargaining purposes for fear of upsetting national finances. Guatemala has a reciprocal trade agreement with the United States, however.

Nicaragua also has recognized the tariff primarily as a source of revenue —usually about one-fourth of the annual income. A few protective rates

[6] *Economic Controls and Commercial Policy in Cuba*, p. 48.

have been employed in addition. The reciprocal trade agreement with the United States dates from 1936.

El Salvador's tariff rates are based on her trade balance with other countries. They produce about 60 per cent of the government's revenue. In 1937, El Salvador entered a reciprocal trade agreement with the United States.

Haitian tariffs were handled by a representative of the United States government from 1915 to 1933 and then by a collector nominated by our government. Formal supervision came to an end in 1941. The tariff has been the largest source of revenue.

The Dominican Republic has also had her customs under the supervision of a United States representative for many years (1905–41). They have been the source of much of the government's revenue. Some export duties still persist in spite of the law of 1920 which made permissible the export of all commodities duty-free.

Cuba has always enjoyed a preferential tariff relation with the United States. Since 1934, it has taken the form of reciprocal trade agreements. Cuba has stressed protection and nationalism in recent years.

QUESTIONS FOR DISCUSSION

1. Considering the resources of Panama and her dependence upon the United States Panama Canal Zone, how far do you think her extreme nationalism can carry her?
2. If Costa Rica were to ask your advice on commercial policies suitable for her economy, what specific suggestions would you make to this nation of 600,000 inhabitants?
3. Explain why the earlier form of Latin-American tariffs and those of such slowly developing countries as Honduras today list the commodities in such detail.
4. Using Guatemala as an illustration, suggest the influence of the investment of a large amount of foreign capital in a country.
5. What did the appointment of customs collectors for Haiti and the Dominican Republic mean (*a*) to the sovereignty, and (*b*) to the development of those countries?
6. What have been the results of the advantages Cuba has enjoyed in the United States market? What might be the effects of dropping this preference (*a*) on Cuba, and (*b*) on the United States?

Chapter XXV

CANADIAN POLICIES

Early Development. Great Britain became the owner of Canada by wresting that region from French control in 1763. For the next sixty years, Canadian commerce was carried on almost exclusively with the United Kingdom. In 1822 the latter made large concessions to the United States in so far as Canadian trade was concerned. When the free trade movement asserted itself in England, the Canadian wheatgrowers and others feared the effect of the loss of the preferential rates that they had been enjoying in that market. Their worst fears were realized in 1846. A serious depression set in, especially in the flour industry of Montreal. There ensued an ephemeral agitation to break away from the mother-country and form a union with the United States.

The Treaty of 1854 and Reciprocity. Nevertheless, a movement started immediately to negotiate a reciprocal trade treaty with the United States. But it required eight years of negotiation. This was due in part to a certain amount of indifference on the part of the United States which was concerned with the Mexican War. The treaty finally won the consent of Congress on August 5, 1854, and was proclaimed by the President on March 16, 1855. The contracting parties were the Provinces of Canada, New Brunswick, Nova Scotia, and Prince Edward Island and the United States. On December 12, 1855, it became effective with Newfoundland as well.

Article III of the treaty guaranteed reciprocal free trade in the following products:

Grain, flour and breadstuffs of all kinds
Animals of all kinds
Fresh, smoked, and salted meats
Cotton, wool, seeds and vegetables
Undried fruits, dried fruits
Fish of all kinds
Products of fish and of all other creatures living in the water
Poultry, eggs
Hides, furs, skins or tails, undressed
Stone or marble in its crude or unwrought state
Slate
Butter, cheese, tallow

Lard, horns, manures
Ores of metals of all kinds
Coal
Pitch, tar, turpentine, ashes
Timber and lumber of all kinds, round, hewed, and sawed, unmanufactured in whole or in part
Firewood
Plants, shrubs, and trees
Pelts, wool
Fish oil
Rice, broom corn, and bark
Gypsum, ground and unground
Hewn or wrought or unwrought burr of grindstones
Dyestuffs
Flax, hemp and tow, unmanufactured
Unmanufactured tobacco
Rags

The products, it may be observed, were essentially those of agricultural, pastoral, and mining activities rather than manufactured goods. The reason for this is interesting. There was, of course, opposition from United States protectionists who feared that English-made goods might come through Canada. But even more significant was the growth of protectionist sentiment in Canada during the eight years of negotiation—eight years in which the Canadians were seemingly deserted by England and not welcomed by the United States. Thrown on their own resources, they had begun to develop their own industry.

The treaty stimulated Canadian exports more than United States exports —the items being essentially those which the provinces had for sale rather than those they wanted to buy. But other United States exports increased. Within eleven years, trade between the countries had grown threefold, and the United States soon began to look upon Canada as her second best customer—England occupying first place. On the basis of Canadian statistics, imports from the United States in 1853 constituted 37 per cent of all imports. This share grew to 57 per cent in 1855 and remained above 50 per cent until 1864. In that year it was 45 per cent. Imports from Canada rose from 2.95 per cent in 1854 to 13.93 per cent in 1865.

The Abrogation of the Treaty. On March 17, 1865, the United States gave notice of her desire to abrogate the treaty, and it was terminated one year later. There were several reasons for this. Relations with England had become strained during the Civil War, and matters were not improved by an armed raid into Vermont from Canada in December, 1864, by confederate sympathizers. But more important was the need of both countries for more revenue and the growth of the protectionist spirit in Canada. Last-minute attempts on the part of Canada to save the treaty failed. Appre-

hension over the abrogation of the treaty, the unfriendly attitude of the United States, and the possibility of serious consequences from the reopening of the issues that the treaty had settled strengthened the movement for the union of the separate provinces. Following the termination of the treaty, exports from the United States fell to 34 per cent in 1867 while imports from Canada were cut in half (6.33 per cent in 1867).

The Growth of Protection. The crisis of 1857 emphasized the need of Canada for additional revenue. In 1859, rates were raised on manufactured goods to a level of 20 to 25 per cent while many were doubled. This kept some United States goods out and curtailed the market seriously for others. However, it must be remembered that these high rates were imposed against the mother-country as well. In 1860 the British tariff no longer contained any preferences for colonial products. The Canadians turned more and more to the customs as a source of revenue in the absence of any veto from England. In spite of opposition by British exporters, a protective system grew up.

The Formation of the Dominion. In 1867, Canada ceased to be a colony and became a Dominion through the federation of Quebec, Ontario, New Brunswick, and Nova Scotia. This union marked the abolition of tariff barriers between the provinces, which had found that indirect taxation was more convenient than direct taxation. The tariff of the Dominion was made up, naturally enough, by an averaging of the tariffs of the provinces. Although primarily for revenue, there were some unmistakable protectionist features such as the free admission of raw materials to stimulate the growth of manufactures.

In 1868 a nationalist movement became articulate, and in 1874 the Canadian National Association voiced the demand for a tariff that would not only yield a revenue but give all possible encouragement to Canadian industry. The depression of 1873 had brought about an increase in tariff rates. The highest duties were imposed on luxuries.

The election of 1878 was taken as a mandate for protection and the act of 1879 raised rates; placed many items, formerly free, on the protected list; and provided direct and indirect preference to British imports. Revisions during the eighties pushed rates higher, while those in the nineties tended toward lower duties. In 1891, free trade between Canada and the United States was advocated in the platform of the Liberals; but the party was defeated.

At this time, the Canadian policy called for protection to home industries but, except for duties on tea, coffee, and salt, treated all nations alike. Tea and green coffee were to be admitted free unless imported from the United States, in which case a tariff of 10 per cent was to be imposed. Ground or roasted coffee, which was assessed 3 cents on a pound, was to pay that duty and an additional one of 10 per cent when coming from the

United States. Salt coming from the United Kingdom or any British possession was admitted free but paid a tax of 10 cents on each 100 pounds from any other country.

The tariff revision of 1897 reduced or abolished the tariff on Indian corn, binder twine, barbed wire, pig iron, flour, and sugar; offered reciprocity on all items other than sugar, molasses, tobacco and its products, and alcoholic liquor; and gave preferential rates one-eighth lower to the United Kingdom, British India, and New South Wales. Countries enjoying the most-favored-nation treatment benefited from this act, but the United States did not.

In the following year, Canadian preference for the goods of the United Kingdom, Bermuda, the British West Indies, British Guiana and later (1904) all the rest of the British Empire except Newfoundland was fixed at 25 per cent of the ordinary rates. The degree of preference was increased to 33⅓ per cent in 1900.

The Tariff War with Germany. The years 1903–10 witnessed a tariff war between Canada and Germany. The former had refused the latter's request for preferential rates because she had been denied the most-favored-nation treatment. Canada imposed a surtax of 33⅓ per cent on all German goods and eventually won out.

The Tariff: 1904–13. By 1904, Canadian-made products began to suffer from the preferential rates given to Britain, and it became necessary to reduce the degree of preference. It was restored to one-third, however, in 1907. The act of that year provided for a three-column tariff—British preferential, intermediate for bargaining purposes, and general. Preference ceased to be a flat rate and began to vary with the commodities involved. The tariff also assumed a form, much like that of the United States, having eleven divisions and 1,213 tariff numbers. Prior to this time the rates had merely been printed without regard to either class or alphabetical order. In 1911, with the return of the Conservatives to power, a tariff commission was appointed to examine and report upon the whole Canadian tariff system. The commission, however, had not completed its report at the outbreak of World War I.

Attempts at Reciprocity. Before taking up the war phase of Canadian tariff development, something more should be said about the attempts at reviving a reciprocal trade relationship between the United States and Canada. For thirty years after the abrogation of the treaty in 1866, Canadians took the initiative to improve commercial relations. In 1874, for example, Canada offered to remove duties on a list of manufactured goods which included agricultural implements, boots, shoes, furniture, vehicles, print paper, woolen tweeds, and many other products made of wool, iron, steel, leather, and cotton. This proposal reached the point of a draft but was rejected by our Senate because of the provisions that goods placed on

the free list for the United States should also be free when imported from England. A later attempt in 1888 again proved futile because of the opposition of the United States Senate. By this time, Sir Wilfrid Laurier, the Canadian leader, was thoroughly disgusted. He is quoted as having said: "There will be no more pilgrimages to Washington. We are turning our hopes to the old motherland."

In 1910, Canada entered treaty relationships with France wherein France was given lower rates than those faced by our exports to Canada in return for concessions on several hundred items, previously raised. President Taft was at once faced with a provision of the tariff of 1909 calling for a maximum set of rates to be enforced against the products of any country discriminating against the United States. Accordingly, he sent a commission to Canada which succeeded in getting better rates on soap, tableware, cottonseed oil, leather, perfumery, watch movements, photographs, and a few other commodities. Even these concessions aroused the opposition of the conservatives who attacked them as a surrender to the bullying threat of a club.

An outgrowth of these negotiations was a treaty of commerce negotiated in Washington in 1911. The concessions took the form of Schedules A, B, C, and D. Schedule A was made up of agricultural products with only a sprinkling of manufactured goods such as galvanized sheets, barbed wire, cream separators, typesetting and type-casting machines, coke, and cottonseed. All items in this schedule were to be duty-free in both countries.

All items in Schedule B were to bear identical rates of duty in both countries—these rates to be lower than in effect at the time. They included flour, barley-malt, lard, bacon, some machinery, clocks and watches, motor vehicles, and some manufactures of minor importance.

In Schedule C were found the six items to be admitted free by the United States: aluminum, laths, shingles, planed or finished lumber, iron ore, and coal slack. Canada, in turn, promised reductions on the goods listed in Schedule D: cement, fruit trees, condensed milk, unsweetened biscuits, canned fruits, peanuts, and bituminous coal.

Part of the strategy employed by the advocates of the treaty was the simultaneous submission to the legislatures of both countries. It was introduced in the United States House of Representatives on January 28, 1911, and was referred to the Ways and Means Committee which reported favorably on February 11. Three days later, it was passed by the House. The Senate Finance Committee reported it without recommendation on February 24, but the Senate session ended before a vote was taken. President Taft then called a special session of Congress. The bill was again reported by the Ways and Means Committee on April 11, 1911, and it again passed the House. The Senate Finance Committee again reported the bill without

recommendation. But this time it passed the Senate on July 22 and was signed by the President on July 26.

Its fate in Canada was different. It was introduced on January 26—within two days of its introduction in our House of Representatives—and became the subject of a heated debate for several months. The Liberal party, which favored it, lost its majority when Parliament dissolved; and the victorious Conservative party defeated the bill. In spite of this, our statute books carried our offer to Canada for eleven years until repealed by the Tariff Act of 1922. Appeals in the Canadian Commons on March 25, 1919, and April 13, 1921, both proved futile.

Then it became the other fellow's turn in this game of hide-and-seek. In 1923, Canada included in its tariff a standing offer of reciprocity with the United States provided that we would reduce our rates on cattle, wheat, flour, oats, barley, potatoes, onions, turnips, hay, fish, and so on. Canada, in turn, would make comparable concessions. This remained on the Canadian statute books until 1931, when the offer was generalized. The governor-in-council was authorized to "make such reductions of duties on goods imported into Canada from any other country or countries as may be deemed reasonable by way of compensation for reduction on Canadian products granted by any such country or countries."

Commenting on the defeat of the treaty of 1911, the United States Tariff Commission Report states:

> So far as reciprocity was the real question with the voters, there is little doubt that the decisive factor was the fear that commercial intimacy would lead to annexation. The friends of the agreement protested in vain that Canadians did not export their loyalty in sacks of wheat or packages of gypsum, and that the prediction of political union was an insult to their intelligence. Nevertheless the opposition maintained that . . . . "the far-reaching effect of business affiliation, the close proximity and constant efflux, the seductions of commercialism, the constant intercourse of business, social, and official life will inevitably weaken the ties of empire, and wean the thoughts of our newer generations, if not of ourselves, toward the predominant power and create new attachments. . . . . The dominant sentiment of the United States that is pushing reciprocity through to a successful enactment is not economic, it is political. It is still the conquest of Canada." Old and new assertions of American publicists and journalists favoring political union were republished throughout the Provinces. There have always been and there are today a great number of Canadians who honestly believe that the United States has been constantly on the watch for an opportunity to annex the Dominion. This is, of course, not at all in accordance with the facts. The real opinion of an overwhelming majority of Americans upon this matter was that expressed by Secretary Knox in a public address in Chicago: "the United States," he said, "recognizes with satisfaction that the Dominion of Canada is a permanent North American

political unit and that her autonomy is secure." But for one Canadian who read this speech, there were ten who read the statement of the New York Journal: "We look forward to the day when this whole North American Continent will be one great nation, as it should be." Such remarks stung the national pride of Canadians to the quick and were interpreted as the indiscreet voicing by individuals of a sentiment cherished by all Americans.

Canadian Tariff Policy and World War I. At the outbreak of World War I the Canadian tariff was three-column in structure. Duties were reduced by one-third in favor of imports from the British Empire with the exception of Newfoundland, Australia, Gibraltar, Cyprus, Hong Kong, and Malta. The intermediate rates were 2½ to 5 per cent lower than the rates of the general tariff and were available to countries having treaties with Canada providing most-favored-nation treatment—France, Italy, Argentina, Denmark, Japan, Norway, Spain, Sweden, Switzerland, and Venezuela.

The war period was marked by the need for additional revenue. Tariff rates were raised by an increase of 5 per cent on all imports of British origin and 7½ per cent on all foreign imports.

In the postwar period, the tariff served as an important source of revenue, producing from 27 to 35 per cent of total receipts between 1922 and 1932, when the Ottawa Conference was held. During this time, moreover, the amount yielded by the customs never fell below $104,000,000 annually. In 1929, the yield was $187,206,000.

The Attitude of the Conservative Party. In 1930, Premier Bennett gave the following statement for the Conservative party:

> The Conservative Party of Canada believes in, and employs, the principle of protection of the home producer of agricultural and fabricated products from harmful interference by world competitors, but it is not part of our policy to exclude from our markets foreign goods, so long as their importation does not threaten a reduction in the high standard of living which our citizens enjoy. . . . This policy has come to be known as the policy of "Canada First." . . . We must have—all of us—markets without the Empire and to make those markets sure and greater we must place no insuperable barrier in the road of reciprocal world trade . . . . we should direct the present flow of trade into more permanent Empire channels . . . .

The Ottawa Conference. The Ottawa Conference of 1932 was concerned mainly with the reorganization of the system of imperial preference. It resulted in more favorable treatment for 233 articles coming from British sources. Canada lowered her rates on 133 items, more than half of which were placed on the free list. Preference was also increased to some

degree by raising the general and intermediate rates on iron and steel, drugs and chemicals, textiles, leather goods, glass, and vegetable oils.

In 1937, on the expiration of the five years allotted to imperial preference, a new agreement was made. Canada guaranteed preference on twenty-one items, reduced duties on 179, gave assurance against increase on 246, and promised not to reduce 91 others—commodities principally of the type not made in Canada. This new agreement was to remain in force until August 20, 1940, and thereafter until terminated by six months' notice.

Trade Agreements. In addition to agreements from time to time with other members of the Empire, Canada has made a number of treaties, commercial agreements, and tariff concessions since 1933 with France, Haiti, Costa Rica, Bolivia, Guatemala, Panama, Poland, and Germany. An understanding was reached with Russia. An end was brought to the tariff war with Japan. This dispute grew out of the dumping duties which Canada had been levying since 1931 against commodities originating in countries having depreciated currencies. Japan took the position that these were discriminating and levied a special surtax of 50 per cent on the leading articles of Canadian export. Canada had retaliated with a surtax of 33⅓ per cent but in 1936 began to place Japanese exports on a more favorable basis.

The United States and Canada entered reciprocal trade relationships once again by the agreement signed on November 15, 1935. This was superseded by the second agreement of November 17, 1938. This latter was again given a term of three years, to continue thereafter until six months after notice of termination had been given by either country.

This second agreement between two countries whose trade outranks that of any two nations in the world embodies many of the concessions granted in the first and included a great many new items as well. It contained other provisions, not the least of which was the promise to remove a special tax of 3 per cent on United States imports from which British goods were exempt.

Some idea of the success of the first agreement may be had from the fact that, in the two full years of its operation, Canadian imports from the United States increased 42 per cent in value over the two years immediately preceding the agreement, while our imports from Canada increased about 50 per cent as compared with the same period.

Customs Income since 1932. In 1932, Canadian customs yielded \$104,133,000 which was 31 per cent of that government's total receipts. In the following years the amounts declined sharply due in a measure to the depression and increased expenditures, as well as other causes so that, in 1937 and 1940, customs accounted for only 19 per cent, even though in the latter year the \$100,000,000 mark was reached once again. The yields beginning with 1933 were as follows:

Year	*Amount*
1933	$ 70,073,000
1934	66,305,000
1935	76,562,000
1936	74,005,000
1937	83,771,000
1938	93,456,000
1939	78,751,000
1940	104,301,000

Canadian Trade Relationships. Since 1911 we have purchased on the average between 8 and 14.5 per cent of our total imports from Canada and have sold her from 11.8 to 15.7 per cent of our exports. In Table 45 the principal customers and suppliers of Canada are shown. In 1932 the United States and other English-speaking countries purchased three-fourths of Canadian exports and supplied over 85 per cent of her imports. In 1939, 87.2 per cent of her exports went to these countries. Her purchases from them constituted 86 per cent of her total purchases. In 1940, the percentages were 91 per cent and 82.4 per cent respectively.

TABLE 45

CANADIAN TRADE RELATIONS, 1932–40

Year	Exports Percentage to—				Imports Percentage from—			
	U.S.	U.K.	Other British	Japan	U.S.	U.K.	Other British	Japan
1932	32.9	36.1	7.9	..	58.2	20.7	7.6	..
1933	32.1	39.6	8.4	..	54.2	24.4	8.7	..
1934	34.1	41.4	9.9	2.6	57.2	22.1	8.5	0.9
1935	36.5	41.6	10.2	2.1	56.8	21.2	10.4	0.7
1936	35.2	42.4	9.1	2.1	58.2	19.2	10.5	0.7
1937	35.7	40.6	10.5	2.6	60.6	18.2	11.1	0.7
1938	32.1	40.5	12.3	2.4	62.7	17.6	1.0	0.7
1939	41.1	35.5	7.6	3.0	66.2	15.2	4.6	0.6
1940	35.5	43.0	12.5	0.9	66.7	14.7	1.0	0.5

In Canada we find a market for agricultural, mineral, and manufactured products. The agricultural products are basically those not grown in Canada—citrus fruits and cotton. The minerals include coal and petroleum. The manufactured products consist in a large measure of consumer goods. Our imports from Canada consist of fish and fish products, wood and wood pulp, and some manufactured goods such as whisky.

Canada and World War II. Canada declared war on Germany on September 10, 1939; on Italy on June 11, 1940; and on Finland, Hungary, Japan, and Rumania on December 7, 1941. She ended relations with Vichy France on November 9, 1942. From 1939 on, there was rigid exchange control, control over exports, price ceilings, and other familiar wartime

TABLE 46

Some of the Principal United States Exports to Canada, 1938–40

Commodity	Unit	Quantity		
		1938	1939	1940
Grapefruit	1,000 boxes	736	845	723
Lemons	1,000 boxes	390	428	456
Oranges	1,000 boxes	3,407	3,592	3,551
Berries	1,000 lbs.	6,404	8,990	6,464
Grapes	1,000 lbs.	27,672	30,463	41,226
Raw cotton	1,000 bales	241	288	313
Anthracite coal	1,000 long tons	1,693	2,301	2,345
Bituminous coal	1,000 long tons	8,535	8,906	11,881
Crude petroleum	1,000 bbls.	24,845	28,720	28,778
Motor trucks and busses	Number	2,527	2,260	2,005
Passenger cars	Number	12,057	15,844	14,340
Engines for assembly on new passenger cars with U.S. trade names	Number	4,383	2,560	545
Same for trucks	Number	3,685	5,677	5,146
Washing machines	Number	13,361	18,425	15,550

devices. In 1940 a war exchange tax of 10 per cent of the duty value of all imports was imposed on the commodities of non-Empire countries reaching the Canadian market. A ban on the importation of nonessential consumer goods, known as the "War Exchange Conservation Act," went into effect the same year. Other products such as cereals, automobiles, furniture, silk fabrics, clothing, and toys were not to be imported except from Empire sources. Canada removed or reduced duties on numerous British products by as much as 50 per cent. No reductions were made, however, on alcoholic beverages, tobacco, sugar, and silk.

TABLE 47

Some of the Principal United States Imports from Canada, 1938–40

Commodity	Unit	Quantity		
		1938	1939	1940
Cattle, except those for breeding	Thousands	138	274	219
Fish and fish products	1,000 lbs.	109,391	124,077	132,027
Furs, undressed	Thousands	1,124	1,491	2,959
Whisky	1,000 gal.	3,560	2,102	2,262
Sawed boards and timber	1,000 feet	482,226	655,733	662,797
Wood pulp	1,000 long tons	812	1,092	1,494
Pulpwood	1,000 cords	1,294	1,131	1,436
Newsprint	Million lbs.	3,927	4,411	5,209
Artificial abrasives	1,000 lbs.	101,923	125,664	190,394
Asbestos	1,000 long tons	147	200	202
Aluminum, metal, scrap and alloys, crude	1,000 lbs.	2,433	8,096	30,498
Nickel ore	1,000 lbs.	58,188	127,849	184,369

The Canadian Tariff and World War II. Beginning in 1939, Canada has made vigorous use of tariff and foreign exchange laws which have been on the statute books since 1931 and longer. In introducing the budget for 1940–41 in the Canadian Parliament on June 24, 1940, the Canadian Minister of Finance, J. L. Ralston, pointed out the need for new taxes to conserve foreign exchange and proposed that "a War Exchange Tax of 10% shall be imposed on the value for duty purposes of all imports, free and dutiable, from non-empire countries." Although primarily for exchange control purposes, the tax would yield a revenue of $65,000,000 in a year. In addition, an excise tax on imported and domestically produced automobiles was urged to conserve exchange and to bring in an additional revenue of $3,500,000.

Mr. Ralston emphasized that

> these measures for conserving exchange are dictated by the conditions of the present emergency. Needless to say, we regret that the exigencies of war make any such restrictive action necessary, and our fervent hope and firm resolve are that at the earliest possible moment we may be able to return to the long-run policy of this Government, which is that of the progressive lowering of trade barriers and the encouragement of trade not only with the United States but with all peaceful nations. The Government remains in fullest accord with the Trade Agreements program in which Canada has cooperated with the United States, Great Britain, and other countries, and has no intention or desire to alter by these emergency measures the permanent channels of trade.

On December 2, 1940, the government announced import prohibitions on the following products from non-Empire sources: prepared cereal foods; florist stock and cut flowers; processed and canned fruits and vegetables (but not currants, raisins, dates, apricots, or grapefruit juice); preserved fish, oysters, and crab; manufactured tobacco; spirits and wines; certain classes of fiction magazines and comics; consumer's paper items; perfumes, etc.; china and glass; silverware; electrical household appliances, stoves, etc.; bathroom fittings; automobiles (passenger cars seating less than ten persons, motorcycles and side cars); sporting goods and fishing tackle; cameras; furniture of wood or metal; radios, phonographs; musical instruments; luggage; all finished clothing or wearing apparel; silk fabrics; ornaments; jewelry and precious stones; toys and dolls; and various miscellaneous articles.

Curtailment of the following imports from the non-Empire sources licensing system was also provided: unmanufactured tobacco; motorcycles and side cars; hardwoods, veneers, and plywood; raw silk and silk products; and petroleum products.

Recent Developments in Canada. In 1941, Canada entered most-favored-nation agreements with Paraguay, Chile, and Ecuador. In 1942 a

trade agreement was signed with Argentina, and in the following year with Brazil. The annual budget act made numerous reductions in tariff rates in 1944 but did not raise any rates. In 1945 the war exchange tax of 10 per cent was repealed. In 1947, Canada, which had controlled wheat during World War II, authorized the Government Wheat Board to buy, sell, and regulate the marketing of all Canadian wheat until 1950 and possibly longer. This government agency has thus become the world's largest trader in wheat. Buyers both inside and outside of the country must deal with the board exclusively. The same holds true for sellers. It is quite possible that competitive price in the wheat market in Canada will lose its significance because the internal price would necessarily depend upon the government's decision rather than upon the normal market forces. Here, again, is another indication that controlled economies are on the march.

Canada and the Pan American Union. In the spring of 1947, Representative Keating of New York, citing an address of a Canadian Under-Secretary of State for External Affairs, suggested that the time has come for inviting Canada to join the Pan American Union and to take full part in its activities. He pointed out that "the geographical border between the United States and the Dominion of Canada is probably unique in the entire world. Nowhere else is to be found such an extensive imaginary line on both sides of which the peoples live in complete harmony and friendship."[1] Were Canada to join the Pan American Union, the latter would assume greater significance as an organization covering the Western Hemisphere. It would mark further progress in international understanding.

SUMMARY

An early attempt at reciprocity took the form of an agreement between Canada and the United States in 1855, but it came to an end in 1866. In the following year Canada became a Dominion. A nationalistic movement accompanied by demands for protection followed. It was modified by British preference and by numerous agreements. The first reciprocal trade agreement signed in 1935 with the United States subsequently was superseded by others. During World War II, Canada made vigorous use of her tariff and foreign exchange laws.

QUESTIONS FOR DISCUSSION

1. Using our experience with Canada, comment on the difficulties of negotiating treaties of reciprocity which call for confirmation by legislative bodies.
2. Why did Canada follow the protectionism of the United States rather than the free trade example of Great Britain?
3. What arguments could you offer the Canadians for joining the Pan American Union? In what respects would the Union be benefited?

[1] Keating, Kenneth, *Congressional Record* (Washington, D.C.: U.S. Government Printing Office, May 7, 1947), p. A 2282.

PART V

THE PROBLEMS OF INTERNATIONAL TRADE AND THE RESULTING POLICIES

Chapter XXVI

THE GEOGRAPHY OF INTERNATIONAL TRADE

Introduction. Legislators can pass laws, and administrators can decide on policies and make every effort to carry them out. But standards of living, in the final analysis, rest on the nature of the people and the resources available to them. This is what we mean when we say that economics is a study of man in his attempt to make a living. That attempt has proved to be a very different thing in different periods of history and in different parts of the world at any given time. We are likely to compare the standards of industrial and agricultural countries, of enlightened and backward areas, and to reach various conclusions. We hear a lot of talk about raising the standards of living of other countries, and we hear the warning of some that this cannot be done except by the lowering of our own. Raising a standard, it may be remarked, is not to be confused with neighborly aid in time of epidemic, famine, and disaster.

It is important to recognize that a country's standard of living is an intimate inseparable part of a country, ingrained in the fiber of the people, and not easily susceptible to change. Outside forces that seek to bring about improvement need not expect any thanks or much in the way of immediate results. A standard of living is a relative thing that has no independent existence and is more a reflection of many forces than a force in and of itself. When Luis Quintanilla points out that the per capita relationship of beds to Mexicans is the same as that of automobiles to our population, he is not suggesting that sentimentalists north of the Rio Grande send hundreds of thousands of beds to the Mexicans. Such an act might help to close the per capita bed gap between the peoples north and south of the river, but it would not raise the Mexican standard or lower ours. It would not industrialize Mexico or change Mexican temperament. Having enough beds is a symbol and a measure more than a cause. We must look deeper for the causes.

A standard of living is basically the result of population and the use it makes of its resources. There is such a condition as a country rich in resources that is occupied by a backward people. There is such a circumstance as a poor country occupied by a resourceful people. Then, too, there is another condition in which a country has a resourceful people as well as rich resources. Portions of Africa, Asia, and Latin America may be cited as illustrations of the first type; Holland and Switzerland suggest the

second type; and we like to think of the United States as the best example of the third type.

Wishful thinking is not going to raise standards, and a good-neighbor policy accordingly is not going to lower them. So long as there are two billion people on this earth and half of them live in southern Asia, and so long as one-fourth of them crowd into Europe, leaving the remaining one-fourth the spaciousness of the New World and Africa, there are going to be different standards of living.

The Concern of This Chapter. Our concern in this chapter is the uneven distribution of population, raw materials, fertile soil, good ports, favorable climates, and related factors that give rise to international trade. We shall also realize that many commercial policies are conditioned by this unevenness—some of the policies seeking to overcome the paucity of resources, while others are based on the richness of resources.

Geography is the basic conditioner of production through the uneven distribution of raw materials and human resources. But, because man long ago showed his unwillingness to limit his consumption to what his neighborhood produced, trade and transportation became the forces for balancing this uneven distribution. International trade and shipping are, then, the chief means of facilitating the spread of regional surpluses to areas in need of such commodities. What other functions do exporters and importers have except to facilitate this distribution? And what other purpose do our great ocean-going vessels have except to transfer the cotton, iron ore, copper, bananas, silk, and thousands of other items? The purpose of international trade, in short, is not to carry coal to Newcastle but to carry it away from Newcastle to areas that lack a sufficient supply of coal or have none at all.

Why the United States Imports Goods from Other Regions. We have already seen the nature of international trade in terms of the products sent to the United States by other countries and the nature of our exports to other countries. We have printed in Appendix C a list of the two hundred imports which we buy, in the order of their value. The first one hundred represented, in 1940, 90 per cent of the total value of our imports for consumption; the second hundred represented 5 per cent. A thorough study of this list will prove very valuable to the student. Our use of it here is to emphasize the importance of geography in international trade. We import because:

1. We do not have certain raw materials.
2. We do not have an adequate supply of other raw materials.
3. Although we have an adequate supply of still others, overland transportation costs from one part of the country to another may be such as to warrant importation across the Canadian or Mexican border.

4. We can obtain fruits and vegetables during our winter season from areas of the world whose seasons are the reverse of ours.
5. We want products from other climatic zones—the tropical fruits and the northern furs.
6. We want products that differ in quality from our domestic production. We may want Wedgwood china, handmade lace, British textiles, foreign liquors, French perfumes, Sheffield cutlery, Havana cigars, Swiss cheese and watches, Chinese silk fabrics, Mexican pottery, British moving picture films, hand-tooled leather goods, Oriental rugs, various works of art, caviar, cameras, dolls and toys, animals for breeding purposes, and the countless souvenirs and novelties so temptingly shown to us in the department stores.
7. We may have a preference for the product of one country over that of another when our own capital is invested in producing the raw material in the favored country. The Hershey Chocolate Company owns sugar plantations in Cuba; Firestone owns rubber plantations in Liberia. The United Fruit Company of Boston controls over two million acres of plantations in Central and South America and in some of the islands. Called "the greatest agricultural enterprise in the history of the world," it produces cacao, coconuts, pineapples, rubber, oranges, sugar, and other products which it imports into the United States in its own ships.
8. We can buy more cheaply, on occasion, than we can produce at home. This condition might arise out of a lower price quotation or an upset in foreign exchange rates which might make our dollar "go farther" in a foreign market than at home. Such purchases are hedged in by tariff considerations, countervailing duties, and other restrictions.

The Influence of Geography: an Example. It is a commonplace that raw materials are very unequally divided. But we must be critical of this statement. Resources are unevenly divided in the sense of man-made maps and national boundary lines. It stands to reason that a country whose territory lies solely within the Temperate Zone is going to lack the vegetable resources that are found in the Tropical Zone. This means mahogany, other hard woods, hemp and jute, coconuts, palm oil, tea, bananas, cacao, rubber, coffee, and so on. It means that a country whose whole area lies in the tropics is going to lack the vegetation of the Temperate Zones.

Within the same zone there are marked differences, too. Two countries having the same latitude will differ in rainfall, fertility of soil, wind conditions, arable area, topography, and in the degree of economic development. This last constitutes another reason for international trade since an agricultural country usually is an importer of goods from an industrial country and vice versa. Again, there may be two areas that might be very similar in some respects and very different in others, viewed geographically. Cuba and Java illustrate this situation vividly. Let us set the two before us in the form of a comparative table. (See Table 48.)

TABLE 48

COMPARISON OF THE ISLANDS OF CUBA AND JAVA*

Points of Comparison	Cuba	Java
Form and shape...	An island, running from east to west; 730 miles long and 22 miles to 160 in width	An island running from east to west; 600 miles long and 50 to 100 miles in width
Location	Torrid Zone; Western Hemisphere; 22° north of Equator	Torrid Zone; Eastern Hemisphere; 7.30° south of Equator
Area..........	44,164 square miles	48,534 square miles
Population ...... Density.. Racial origin ...	4,777,000 65 persons per square mile European	44,000,000 671 persons per square mile Eurasian
Temperature.	Always hot	Always hot
Rainfall	Plentiful	90% of plantations irrigated
Soil fertility .	Fertile, but sugar exports are maintained by clearing new fields	Volcanic soil; very fertile
Labor supply.....	Workers imported from West Indies	Native
Food supply........	Large quantities imported; about $100,000,000 per year	Self-sufficient, due in part to Dutch law, which limits sugar cultivation in terms of priority for food
Leading export......	Sugar and molasses (80% of exports in terms of value)	Sugar, copra, rubber, palm oil, coffee
Sugar market.... ...	United States; preferential tariff rate in world's largest sugar market	Japan and China
Sugar cultivation	Modern plantation methods; 4–10 ratoons per year	Modern plantation methods; ratoons possible but economically not feasible
Market location......	Very favorable; near U.S.	Less favorable
Ports.............	20 excellent pouch-shaped harbors	About 20 ports suited for sugar and other products
Foreign influence ...	United States	The Netherlands

* This type of comparison occurred to the author after reading Jones, Clarence F., *Economic Geography* (New York: Henry Holt & Co., 1935), ch. xiii.

We see here two islands of nearly equal size, of similar shape, both located in the Torrid Zone, and both running from east to west, The temperature of the two is always hot. Both are great cane sugar producers and

exporters. But we also see these physical differences: Cuba has plenty of rainfall with a wet and dry season admirably suited to the growing and sugar-storing phases of sugar cultivation. Java, however, is compelled to employ irrigation on 90 per cent of her plantations. This gives her, nevertheless, a degree of control over the wet and dry periods needed for sugar cane culture. The soil of Cuba is less fertile than that of Java; and, since cane growing is hard on the soil, Cuba maintains her exports by constantly opening up new land. The soil of Java is volcanic and ideally suited to sugar. The location of Cuba is very favorable. It faces the United States which is not only the largest consumer in the world but which extends a preferential tariff rate not only on sugar but on other commodities as well. Java is less strategically located and sells her sugar to the poorer markets of Japan and China. Cuba and Java both have a number of good harbors.

When the human element is analyzed, the differences again show up. The outstanding similarity lies in the scientific methods used by the people, but it is to be noted that in both instances these methods were brought in by outside interests who also took responsibility for sanitation and other health conditions. The population of Cuba is roughly but one-tenth that of Java. Hence, the density of Cuban population is only 65 persons per square mile while that of Java is 826 persons—the highest density in the world for an agricultural country. This means that Cuba has land and lacks labor, while Java has labor and must make the maximum use of her land. This has been a matter of concern to the Dutch government, which has limited the amount of land available to export crops such as sugar to that which is left after basic food needs have first been satisfied. Except for this limitation, Java could become a one-crop economy, producing enough sugar for the world, and importing a large supply of her food. Cuban land is relatively cheap, while that in Java is expensive. Cuba meets her problem by importing labor from the West Indies as well as a substantial amount of her food, while Java manages to be self-sufficient through the intensive use of her soil. Cuba has been able to maintain her exports through extensive cultivation and clearing new fields as old land gave out. She has likewise been able to rely upon ratoons—that is, the additional cuttings from the same plant—while Java does not favor this because succeeding cuttings produce less sugar and therefore represent a less economical use of the land. The people of the two islands differ in their origin. Those of Cuba are of European origin, while 70 per cent of the people of Java are Eurasians.

The pre-eminence of these two sugar-producing regions, then, is the result of favorable features balancing unfavorable features in each case. It is the result of man's use of the geographical features at his disposal together with the human resources available. This, in miniature, is the problem of all countries that seek through a balance of the favorable and unfavorable features of their domestic economy to succeed in bringing their products

to the world market. It need not be remarked that this applies to mining and manufacturing just as truly as it does to agriculture.

The Geographical Division of Labor and the Doctrine of Comparative Advantage. The factors of soil, climate, and supplies of resources account for what is called the "geographical or territorial division of labor or specialization." It is recognized as a basic part of international trade theory but only grudgingly is admitted in practical commercial policies. To put it another way, the theorist sees in it something to accept, something to take advantage of, while the framer of commercial policy sees in it something to fight and overcome or minimize. The framer of commercial policy comes closest to accepting it when he admits free of duty or at a nominal charge raw materials that his own country lacks. This is important; but this is as far as he goes. The theorist says in effect, let us use the commodities that we produce most effectively to purchase the commodities that other countries produce more effectively. In this way, we will get our needed imports more cheaply. Technically this becomes the basic concept underlying international trade theory known as the "doctrine of comparative advantage."

There is such a condition as absolute advantage, too—a condition in which one country possesses such a marked superiority over another country (or all other countries) that no choice remains but to buy from the favored country. Genuine French champagne, for example, is produced in one area of France; and, while there are many kinds of wine available, including imitations, there is no alternative open to those who want real champagne except to buy it from France. France's absolute advantage in this case rests in the peculiar soil or some other element that causes this wine alone to effervesce by itself. It follows that no other country can build an infant champagne industry through protective tariffs or other devices. French champagne likewise holds its own because the public has accepted it as unique—even that large part of the public which has never tasted it and has only "seen" it in the movies.

We have discussed elsewhere the theoretical treatment given the subject of comparative advantage (or its earlier name, "comparative costs"). But here we want to show its application. In this connection let us cite the work of Professor Frank William Taussig. He believed that the classical economists had built the structure of economics—the pigeonholes, as it were—and that modern economists could spend much of their time to advantage in filling these pigeonholes with facts. In his half century of brilliant analysis in the field of economics, especially in the theory of the tariff and international trade, he did much to clarify and verify the doctrine now under discussion.[1] His most interesting conclusion was that the main

---

[1] Taussig, Frank William, *Some Aspects of the Tariff Question* (Cambridge, Mass.: Cambridge University Press, 1931); Taussig, *International Trade* (New York: Macmillan Co., 1927).

element in the comparative advantage enjoyed by the United States was the effectiveness of our labor. He preferred the term "effectiveness" over the term "efficiency" because "the latter word has come to be used so often to denote one particular factor that bears on the quantity of product,—the immediate efficiency of the manual workers; by no means the sole or even the commanding factor."[2] Effectiveness includes "the effectiveness of *all* the labor needed to bring an article to market . . . . not merely that of the labor immediately and obviously applied (like that of the farmer), but that of the inventor and maker of threshing-machines and gangplows, and that of the manager and worker on the railways and ships." He then adds that in "other industries even more markedly than in agriculture, the labor of the directing heads, of the planners and designers, tells in higher degree for the final effectiveness of the labor which is applied through all the successive stages."[3]

According to Professor Taussig:

> The answer commonly given is that American producers can hold their own more easily when much machinery is used. Then, it is said, the wages bill forms a smaller proportion of the expenses of production, and the higher wages of the United States are a less serious obstacle. But it requires no great economic insight to see that this only pushes the question back a step. Why is not the machinery itself more expensive? The machinery was made by labor. It is a commonplace that a commodity made with much use of machinery is the combined product of two sets of laborers,—those who make the instruments and those who operate them. If *all* those whose labor is combined for producing the final result are paid higher wages than in foreign countries, why cannot the foreigners undersell where much machinery is used as well as where little is used?
>
> The real reason why Americans are more likely to hold their own where machinery is much used, and where hand labor plays a comparatively small part in the expenses of production, is that Americans make and use machinery *better*. They turn to labor-saving devices more quickly, and they use devices that save more labor. Where Americans can apply machinery, they do so; and not only do so, but do so better, on the whole, than their foreign competitors. The question remains one of comparative effectiveness. Their machinery is not necessarily cheaper; absolutely often it is dearer; but it is cheap relatively to its effectiveness. It is better machinery, and the labor that operates it turns out in the end a product that costs not more, but less, than the same product costs in countries using no such devices, or using devices not so good.
>
> In general, it may be laid down that this sort of comparative advantage is most likely to appear in the United States in two classes of industries,—those that turn out large quantities of staple homogeneous commodities and those that themselves make tools and machinery. Only where many identical things are turned out, does it pay to construct an elaborate and expensive plant. A

[2] *Some Aspects of the Tariff Question*, p. 32.
[3] *Ibid.*, p. 38.

machine-using people directs its energies to best advantage where thousands of goods of the same pattern are to be produced. Hence the repeated experience that, notwithstanding high duties, there is a tendency to import specialties and goods salable in small quantities only. Goods used by the masses in large quantities, as distinguished from luxuries bought by the comparatively few who are rich, are likely to be produced at home, without danger of being pushed by competing imports. If specialties, such as goods made to order, *must* be supplied by domestic producers, they are likely to be what the customer thinks inordinately dear; because they are made preponderantly, or at least in greater degree, by hand labor which is paid high wages and which by the very conditions of the case cannot use labor-saving machinery. Again, implements themselves, big and little, are likely to be well made in a country where people are constantly turning to machinery; from kitchen utensils and household hardware to machine tools, electrical apparatus, and huge printing presses. These are things in which the success of American industry is familiar; which are exported, not imported; in which it is proverbial that the Yankee has a peculiar knack,—another way of saying that he has a comparative advantage.[4]

The question might be raised, however, as to whether Professor Taussig's answer has not really pushed the question back still another step. In other words, why do *we* have the machinery and the assembly lines with which to accomplish this superior job? Why don't we find them in Mexico? In Holland? In Turkey? And many other places? Professor Taussig, however, recognizes other elements as well:

It [comparative advantage] may arise from climatic superiority or other natural fitness, or from skill and aptitude acquired by man; or it may arise from a combination of these. The advantage of the United States in wheat, and its export of wheat, rests (or rested) partly on the possession of vast tracts of new and fertile land; but it was promoted also by the intelligence of its farmers and their large use of agricultural machinery, and by cheap rail transportation from the western wheat fields to the seaports. All sorts of causes here concur; not only the obviously natural ones, but those connected with land tenure and land ownership, with universal education and universal ambition, with the influence on freight rates of unfettered enterprise in the construction and management of railways. However complex the causes, their outcome is clear: the labor of producing and shipping American wheat is effective. The same complexity of causes lies back of our exports of petroleum and of copper—not merely great natural resources, but also great enterprise and skill in developing them. In some of our exporting industries, enterprise and skill alone, without unusual resources, suffice to explain effectiveness and cheapness; as in agricultural implements, sewing machines, automobiles, builders' hardware, electrical equipment. England's large exports of manufactures also illustrate the same combination of high money wages, effectiveness of labor, comparative advantage. The exports rest partly on her deposits of coal and iron ore—the natural foun-

[4] *Ibid.*, pp. 40–41.

dations of manufactures—partly perhaps on a favoring climate, very largely on the vigor, enterprise and skill bred by free industry and free political institutions. China's advantage (or less disadvantage) in tea and raw silk is the result partly of climate, partly of skill and experience transmitted from generations to generations of patient workers. That this latter cause of advantage may be precarious is shown by the extent to which, in recent times, some rival countries have deprived China of her former position as almost the sole exporter of these articles. Ceylon has developed large exports of tea, Japan of raw silk, by systematic attention to the best ways of making labor effective in producing these things.

Cheapness in price being the proximate element in determining exports, any cause or set of causes which makes a commodity cheap acts as an advantage and so promotes exports. True, the prevalence of a low general rate of wages neither promotes nor checks exports. But if one particular kind or grade of labor can be had at *exceptionally* low rates of pay, the commodity made by it is likely to be exported. Tho the labor be not of high effectiveness, the exceptionally low wages constitute low expenses of production, low cost from the business man's point of view; and they conduce to low prices of the things made and are equivalent to a comparative advantage in real costs.[5]

The comparative advantage enjoyed by any country may be said, then, to be based on a combination of three elements: (*a*) the natural resources available; (*b*) the effectiveness of the labor; and (*c*) the facilitating commercial policies of the government. The natural resources include the climate, rainfall, and soil; the area and topography; and the resources in the ground. The manner in which these resources are put to work to build an economy depends, in turn, upon the type and character of the inhabitants (the human resources). The latter are conditioned by their physical environment and by their mental attitude—whether they are imbued with freedom and hope or suffer from a proletariat, peasant, peon, serf, or slave outlook; whether they have freedom to move about or remain in an immobile type of backwardness; whether they have the benefits of education which make them adaptable or are illiterate, superstitious, and slow to advance. The co-ordination of the two types of resources—physical and human—depends on management, its ingenuity, its enterprise, and its judgment. Finally, the policies of government can do much to hasten industrialization and to influence the country's position in international trade. The student will do well to review the stages of development suggested by Friedrich List in this connection. Chart III illustrates the doctrine of comparative advantage and suggests the relationship of the elements mentioned above. Since we have discussed fully elsewhere the part played by government, we shall confine ourselves here to the geographic phases of comparative advantage.

[5] Taussig, Frank William, *Principles of Economics* (4th ed.; New York: Macmillan Co., 1939), Vol. I, p. 485.

CHART III

THE DOCTRINE OF COMPARATIVE ADVANTAGE

COMPARATIVE ADVANTAGE is based on a combination of

- NATURAL RESOURCES
  - Climate, rainfall, soil
  - Area and topography
  - Resources in ground
- LABOR EFFECTIVENESS dependent upon
  - Human resources
    - Physical environment
    - Mental attitude
      - Freedom and hope
      - Change of scene
      - Education
  - Management
    - Ingenuity
    - Enterprise
    - Judgment
- GOVERNMENTAL COMMERCIAL POLICIES
  - The tariff
  - Numerous restrictions
  - Cartels
  - Merchant marine
  - Subsidies
  - Other encouragements

Environmental Factors and Human Resources. The physical environment in which people live can make them indolent and apathetic "by giving them too much," stolid and unprogressive "by giving them too little," or alert and resourceful by giving them enough to constitute a challenge. The inhabitants of some portions of the tropics have too much of their comparatively small needs supplied by their environment. The Eskimos find barely enough in their environment to sustain life.[6] They cannot accumulate a surplus and become producers. They are somewhat like the nomads in the desert in this respect. The people who live in the intermediate zones find enough to enable them to make the most out of their environment.

In some cases the human resources are more important than the natural resources. The physical environment of Norway had little to give the Norwegians. But instead of becoming a sort of subarctic race, they used the shore for a place to live and turned toward the sea for a living. Their fishing villages became the source of great exports of fish—fresh, smoked, and canned. Their vessels, manned by their youth, became a dominant force in the carrying trade of the world. The Swedes, too, are an example

[6] It is interesting to note that missionaries who described the great heat of hell to Eskimos soon had to picture that region as one of extreme cold, a place dark most of the time, and one in which food was scarce. The Eskimos rather liked the possibility of great heat.

of human resources dominating environment. Their country is two-thirds barren, yet they have harnessed water power and achieved importance because of their lumber, their iron ore, and their manufacturing activities.

The Danes are still another example. With mediocre soil at their disposal, they attempted to grow cereals until faced by the competition of the New World. Then, instead of accepting a philosophy of despair, they turned to stock raising and became famous for the high quality of their food exports—butter and eggs, and ham, bacon, and pork. The Swiss, likewise, were not overcome by their mountainous country. They never became isolated mountaineers with all the connotations that go with it. Instead, although landlocked and with a minimum of fertile soil, they developed their country as a mecca for tourists and as a source of pastoral products, particularly cheese, and they became synonymous with skill in watchmaking. Holland's people, literally forced back the sea, adapted their economy to bulb and tulip production as well as to dairy farming; and they built a foreign tropical empire, sixty times the size of Holland in Europe and fabulously rich in resources. The Belgians, too, although better supplied with industrial resources, made excellent use of their facilities and their area (Belgium would fit into Pennsylvania four times), and developed an African empire seventy-six times the size of Belgium in Europe.

A much less successful picture of human resources dominating physical resources is presented unevenly by the Balkan countries. Such development as has taken place has been fairly recent and has been due to non-Balkan influences. The Rumanians did not exploit Rumanian oil. The Balkan peoples did not develop their timber resources. The Yugoslavs have not made use of their rich forest, mineral, and water resources or of their fertile land in the south. The Bulgarians, though hardworking, have done little more than eke out an existence, and their country "typifies what all of Eastern Europe was a century ago—an agricultural area with primitive methods, low standards of living, and little foreign trade."[7] The poverty of Greek soil has driven the Greeks seaward.

Human Resources in Latin America. In emphasizing the differences in human resources in connection with the geography of international trade, no disparagement is meant and no generalizations are intended. A country is not to be criticized any more for the make-up of its population than it is for its lack of natural resources, provided of course that it is making efforts to improve the health of its people and to afford them the opportunities for education and self-betterment. Forces going back many centuries have made the people what they are today, and conditions of unstable political affairs within or constant threat of war without go far in

[7] Klimm, Lester E.; Starkey, Otis P.; and Hall, Norman F., *Introductory Economic Geography* (New York: Harcourt, Brace & Co., 1940), p. 414.

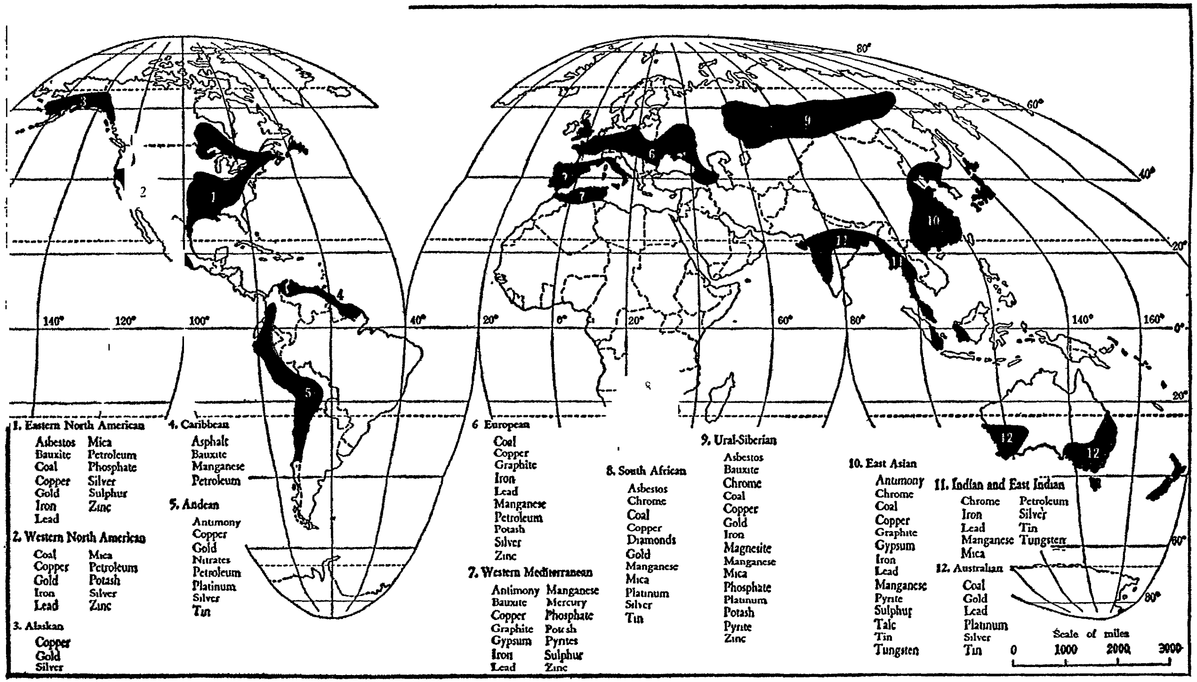
explaining the human resources. Had the Norwegians and the Swedes been engaged in warfare as constantly as the Balkan nations, had the Balkan nations enjoyed the peace of the Scandinavian countries, had the Latin-American nations the same degree of political tranquility as we have had, who knows but that the story of the human resources and physical resources would read very differently?

The Indian population of Latin America cannot be looked upon as a labor supply capable of labor effectiveness in the predictable future. Pure-blooded Indians make up 55 per cent of the population of Guatemala, 54 per cent of that of Bolivia, 46 per cent of that of Peru, 41 per cent of that of Ecuador, and 29 per cent of that of Mexico. Indian and white mixtures account for 97 per cent of Paraguayan population, 85 per cent of Honduran, 80 per cent of Salvadoran, 70 per cent of Nicaraguan, 60 per cent of Colombian and Venezuelan, 58 per cent of Panamanian, 45 per cent of Guatemalan, 41 per cent of Ecuadorian, 32 per cent of Bolivian, and 10 per cent of Brazilian population. Uruguay stands out as the one country whose population is almost entirely of European origin. Seventy-eight per cent of Argentina's population is of European extraction. In view of this condition, there must be an enormous portion of Latin-American population that is not particularly interested in our exports because they have their own standards of living. But on the other hand, judging from the size and make-up of our exports, there must be a smaller segment of the population, the city dwellers, that buys a great deal of our manufactures.

It has become conventional to apply a standard-of-living test in terms of the number of telephones, automobiles, and other modern industrial wonders in relation to population. Thus, it is frequently pointed out that in the United States there is one telephone for each five persons, while in Brazil the ratio is one telephone for each 134 persons; in Chile one for each 57; in Costa Rica, one for each 170; in Paraguay, one for each 270; and in Guatemala, one for each 1,483 persons. If automobiles be taken as a measure, the record runs something like this: The United States has one automobile for each four persons; Guatemala, one for each 715; Brazil, one for each 257; Chile, one for each 113; Costa Rica, one for each 196; and Paraguay, one for each 570 persons. Such figures might shock those of us who are unwilling to wait in line to use a "pay phone" and who expect taxicabs to be available for everyone's needs—not to mention home telephones and privately owned automobiles. But again, this constitutes the use of a measure from without instead of one from within. Just what use Indians might make of telephones, for example, is not clear—certainly no clearer than if they, through pity for us, discovered that there was but one buffalo hide (or whatever Indians might use to measure their standard of living) for each 200,000 persons in the United States. The measures do have one use for our exporters, however. The number of automobiles, for example, sug-

MAP II

WORLD DISTRIBUTION OF BASIC RAW MATERIALS*



* *Geographical Foundations of National Power*, Army Service Forces Manual (Washington, D.C · U. S. Government Printing Office, 1944), p. 120.

gests the size of the market for accessories, tires, tools, and other equipment that might be purchased. Information as to the number of homes wired for electricity is the fundamental information needed by exporters of electrical devices, and so on.

Area, Topography, and Resources in Ground. The nations of the world differ greatly in size varying all the way from a country the size of Switzerland to Russia which covers about one-seventh of the earth. The larger the territory, the greater the climatic range, the greater the possibility of differences in soil and other natural resources, the more varied the population, the more chances of self-sufficiency for at least a minimum standard of living, the greater the possibility of having inland lakes, rivers, and ocean coastline. Mere size, however, is no guarantee of resources. Russia's rivers flow in the wrong direction—northward—and are icebound a good part of the year. Brazil and Canada are both larger than the United States but do not possess our resources. In fact, much of Canada is cold and barren; and much of Brazil is not conducive to human habitation. Our single state of Texas is larger than any one European country; yet it does not have the mineral resources of Belgium or Alsace and Lorraine.

Topography is frequently a clue to the presence of metals and minerals, which are usually found in mountainous regions rather than in level areas or lowlands. But again, there are numerous mountain ranges that apparently yield no mineral wealth and serve instead as a barrier to transportation and agriculture.

The uneven distribution of important materials over the earth's surface —uneven, let it be said again, in the terms of the manner in which man has carved up the surface for national boundaries—is a fascinating subject because it has so much to do with a people's standard of living and the course of international trade. Map II shows the world distribution of basic raw materials. Table 49 shows the producers of 10 per cent or more of the world's supply of numerous important metals and minerals, together with the degree of commercial control exercised by the leading manufacturing nations. This latter suggests how the capital of industrial nations has been invested in the raw material resources found in less developed nations, and it helps to explain the attempts of the latter to nationalize their mines and oil properties to shake off this control. The changes resulting from World War II are not reflected here, but it is doubtful if the new supplies and sources that have been developed will in any case change the peacetime sources as much as 10 per cent. The degree of commercial control exerted by the defeated countries will show a decided change. The share of the victorious countries will increase by that much. With the exception of potash and tungsten, the control of which has been held by Germany and China, respectively, the largest degree of commercial control has been exerted by the United States and Great Britain. In the light of

TABLE 49

PRODUCTION OF IMPORTANT METALS AND MINERALS BY LEADING SOURCES AND THE DEGREE OF COMMERCIAL CONTROL EXERTED*

Metal or Mineral	Leading Producers (10% or More)	Country and Degree of Commercial Control in Percentage of World Total
Gold	South Africa 48%; U S. 15%; Canada 12%	...
Silver	Mexico 44%, U S. 22%; Canada 10%	U S. 66%; Brit 22%; all others 12%
Platinum	Russia 44%; Colombia 20%, South Africa 15%, Canada 12%	...
Diamonds	South Africa 44%; Congo 33%; Gold Coast 11%	...
Iron ore	U.S. 37%, Fr. 25%	...
Coal	U S 39%, Brit. 20%; Ger. 12%	...
Copper	U S. 42%; Chile 15%, Africa 10%	U.S. 72%, Brit 9%; Belg. 8%; all others 11%
Tin	Southeastern Asia 75%; Bolivia 17%	Brit. 32%; Netherlands 22%; Bolivia 17%; all others 9%
Lead	U S. 34%; Mex. 15%; Australia 10%	U.S. 47%, Brit. 33%; Ger 6%; Fr. 5%; all others 9%
Zinc	U.S. 37%; Belg. 13%; Poland 12%	U.S. 55%, Brit. 20%; Fr. 9%; Ger. 8%; all others 8%
Bauxite	France 32%; U.S. 18%; Hungary 14%; Dutch Guiana 12%	U S. 46%, Fr 12%; Ger. 10%; Italy 9%; Brit. 7%, all others 16%
Nickel	Canada 90%	Brit. 50%, U.S. 40%, Fr. 6%; all others 4%
Manganese	Russia 32%; Brit. India 28%; Gold Coast 11%	Brit. 43%, U.S 20%; Russia 32%; all others 5%
Chromium	Rhodesia 41%; New Caledonia 10%	Brit. 65%; U.S. 15%; Russia 9%, all others 11%
Tungsten	China 60%, Burma 14%	China 60%; Brit. 29%; U.S. 7%; all others 4%
Vanadium	Peru 40%, U.S. 32%; South West Africa 15%; Rhodesia 13%	U.S. 72%, Brit. 28%
Iodine	Chile 80%	...
Molybdenum	U.S. 90%	U.S. 90%; Norway 8%; all others 2%
Sulphur	U.S 83%, Italy 12%	U.S. 85%; Italy 11%; all others 4%
Potash	Ger. 74%; Fr. 20%	Ger. 74%, Fr 20%; all others 6%
Petroleum	U S. 63%; Russia 12%; Venezuela 10%	U.S 70%; Russia 12%; Netherlands 10%; all others 8%
Phosphates	U.S. 34%; Tunis 28%, Morocco 12%	...

* Based on Jones, Clarence F., *Economic Geography* (New York: Henry Holt & Co , 1935), p. 317 *et passim.*

this, the pledge contained in the Atlantic Charter that all nations, victor and vanquished, large and small, rich and poor, shall have equal access to raw materials, assumes great importance.

It must be kept in mind that there is a difference in the quality of the

ores, their nearness to the surface, their accessibility, and their proximity to the market or to complementary resources—iron ore to coal and limestone, for example. A classic example are the rich iron ore deposits in Brazil, the use of which is hampered by their location some 400 miles inland, the poor transportation facilities, and the lack of coal. A much fuller appreciation of the importance of metals and minerals to a nation's economy can be obtained by the student by working out a series of topics such as "What Possession of Coal Means to a Nation," (iron ore, petroleum, china clay, etc.) in which attention is also given to the derivatives, by-products, and uses. Some years ago, the steel industry published an informative table[8] showing how each of the nonferrous metals added new qualities to steel. It revealed that aluminum removes gases and impurities from the steel; that chromium in small amounts improves the hardening qualities and, in amounts in excess of 10 per cent, prevents rust; that cobalt holds the cutting edge at high temperatures and improves the electrical qualities; that copper retards rust; that lead, when mixed with tin, forms a rust-resisting coating for steel and that small amounts alloyed with steel improve machinability. Small amounts of manganese remove gases from steel; 1 to 2 per cent increases the strength and toughness; and 12 per cent imparts great toughness and resistance to abrasion. Molybdenum increases the strength, ductility, and resistance to shock. Nickel increases the toughness, stiffness, strength, and ductility; and in large amounts it causes resistance to heat and acids. Tin forms a corrosion-resisting coating on steel. Tungsten causes steel to retain hardness and toughness at high temperatures. Vanadium increases strength, ductility, and resiliency; while zinc forms a corrosion-resisting coating.

The Co-ordination of Human and Natural Resources. For lack of a better expression, we use the word "management" to suggest the force that co-ordinates human and natural resources in building up the comparative advantage of a nation. The term as we use it has none of the connotations of management versus labor but refers instead to "ingenuity," "enterprise," and "judgment," which are found just as frequently in the "laborer" as in the so-called "manager." The achievements of management in this country have long intrigued European observers for whom *Fordismus* became a German word meaning scientific management and modern machine production. The frequency of their visits, their expressed amazement at our lack of secretiveness, and the titles of the books and reports they have written reveal their curiosity about our industrial superiority and a pessimistic attitude toward their own countries by comparison. Some of the titles are given below:

The American Workman
The American Invaders (Their Plans, Tactics, and Progress)

---

[8] *Steel Facts*, November, 1938.

The American Cotton Industry (A Study of Work and Workers)
Industrial Efficiency (A Comparative Study of Industrial Life in England, Germany, and America)
The United States in the Twentieth Century
Eclipse or Empire
The Trade of Tomorrow
Economic Statesmanship
America and the Race for World Dominion
Britain's Decline
Amerikanischer deutscher Gewerkschaftsfuhrer
Das Amerikanische Wirtschaftswunder
Das Wirtschaftliche Amerika
The Secret of High Wages
America's Secret
America, the Golden
American Industry and Its Significance
The Causes and Extent of American Prosperity
Men versus Machines in the United States
Britain's Industrial Future
Will Europe be Americanized?

Some of the titles of publications by our own observers likewise have had such titles as:

America versus Europe in Industry
Industrial America
America's Industrial Production Methods
The American Secret
The American Way to Prosperity

A careful reading of these as well as numerous other reports shows that most of the foreigners missed the real significance of comparative advantage and the part played by management. One distinguished group of German unionists went back with our "secret." They said that we pay our laborers more. This makes our laborers able to eat more nourishing food and plenty of it. This makes them stronger workers. So they work harder, and, as a result, earn more. Not realizing that this was placing the cart before the horse, that high wages are a result of productivity rather than the cause of it, they asked German industrialists to start the ball rolling and become Americanized by raising all wages. A Japanese delegation found our "secret" to be the patent system which rewards ingenuity. They went home and put an almost identical law into effect.

These visitors saw and heard and even recorded many things that they apparently did not understand. For example, they found that United States stone masons working on a steel skeleton accomplished more than masons in other countries. This was the result not of harder work or longer hours

but of management that provided them with the stones and with mortar already mixed at their places on movable scaffolds that permitted them to work waist-high instead of crouching and stretching—two very fatiguing positions. Foreign masons carried their own stones, mixed their mortar, and lacked adjustable scaffolds. They heard that Italian bees brought to California lived longer and produced twice as much honey as those left in Italy. But they did not understand the secret—that the bees in Italy are left alone to build their own hives and to seek their own nectar supply; that those in California were supplied with hives, foundations, and combs strategically located in the fields. Hence, the bees did not work as hard and lost little time in flying to and fro. The bees lived longer and got more done. Everyone familiar with our industry can cite numerous similar illustrations.

This is why we say that the comparative advantage of the United States is more than people and resources and laws. Other nations can copy our methods and our laws. They can approximate our resources through importation. But they cannot duplicate the mixture of these elements—the combination which is the secret behind our exports.

Trade Routes. We have said that international trade is bound up with transporting goods from places of surplus to places where goods are needed. In other words, geography determines not only the nature of the goods but the kind of transportation to be employed (pack horse, caravan, railroad, motor truck, ship, or plane), the routes to be followed by the vehicle (trails, desert routes, railroad tracks, highways, sea lanes, and air lanes), and the terminal facilities along the routes.[9] Trails and desert routes still figure in the trade of countries with raw materials and settlements inaccessible to other means of transportation.

Railroads. The railroads of Europe share transportation with the rivers and canals. Heavy goods and raw materials go by water, while passenger traffic, express, perishable goods, and manufactured articles go by train. Although Europe contains mountains and highlands, railroad building has been facilitated by the action of rivers which have cut gateways at important points and which have made possible the use of railroad ferries to give continuous routes. A difference has been pointed out between the railroad routes on this continent and those in Europe. On this continent, railroad building was more or less contemporaneous with the settlement of the country, while in Europe it came long after the settlement of the great centers such as London, Paris, Vienna, Berlin, Munich, Moscow, and all of the other famous cities of Europe. Hence, the lines were built in terms of these centers and the resulting pattern was radial.[10] Another factor has

[9] Finch, Vernor C., and Trewartha, Glenn T., *Elements of Geography* (New York: McGraw-Hill Book Co., Inc., 1942), p. 737.
[10] *Ibid.*, p. 750.

been the building of routes in terms of national defense rather than to facilitate international trade.

In spite of this, there are major transcontinental lines—the London-Paris-Berlin-Moscow route; the London-Paris-Milan-Brindisi route; the London-Berlin-Vienna-Istanbul route. But these routes have been characterized in the following language:

> Roundabout routes and long border stops for customs and passport examination slow down the international expresses, even on lines where good roadbeds permit fast time. Changes in political boundaries have added to the confusion. For example, through trains from Trieste, Italy to Villach, Germany (about 100 miles) must now pass through Yugoslavia for a short distance, thus making an extra border stop necessary. In northern Yugoslavia, the rail routes converge on Budapest, the capital of Hungary, to which this territory formerly belonged, and it is extremely difficult to go between certain Yugoslav cities without entering Hungary.[11]

The railroads of other countries may also be said to have been built with considerations other than facilitating international trade. Those of the Asiatic countries are without connection with each other. Some regions are without this means of transportation. In Africa, the lines are short, running at right angles to the coast and extending inland. The sea has been called "Africa's highway."[12] The same may be said of the rail lines in tropical Latin America in the regions where river and ocean transportation are available. There are trains connecting Argentina and Paraguay, even though there are parts of Argentina not connected with the capital city. The same is true of rail connections between Brazil and Uruguay, etc. Some of these international trains, however, run but once a week and can hardly be considered as major means of international commerce.

Roads and Truck Transportation. The use of trucks as a means of transportation depends upon the presence of suitable roads and their condition. Geographic considerations again are to be noted as conditioning factors. This is well illustrated by our experiences in building portions of the highway to Alaska—the virtual impossibility of building roadbeds because of the alternate freezing and exaggerated softening of the ground; and by the experience in building portions of the Pan-American Highway through different zones and altitudes. Even if construction is ultimately achieved, as much as 20 per cent of the latter may be impassable six months out of the year. When these highways are completed, it will represent one of the great engineering feats of man because, through connecting routes, it will mean a road system 11,000 miles in length starting in Fairbanks, Alaska and running south through western Alaska to the

[11] Klimm, Starkey, and Hall, *op. cit.*, p. 282.
[12] Finch and Trewartha, *op. cit.*, p. 751.

United States, then on through the United States–Mexican border where the system becomes the Pan-American Highway. This continues along the western coast of Mexico, the Central American countries to Panama, thence down the coast through Colombia, Ecuador, and Peru. In Peru a branch moves eastward through Bolivia to Rio de Janeiro, Brazil. The main road continues through Peru to Santiago, Chile and thence eastward to Buenos Aires, Argentina, thus running through all the South American countries. It would be premature to suggest the commercial importance of the route as a whole (as opposed to military importance); but the highway will undoubtedly encourage and facilitate the transportation of goods and tourists between neighboring countries. The truck has yet to prove itself economical over great distances carrying large-bulk low-value goods.

The world over, more attention has been given to national roads over which troops and military supplies can be despatched to borders than to international highways to encourage commerce. The most famous highway of World War II, the Burma Road, is an example of one built from the military viewpoint—as a sort of back-yard entrance for China in the event the Japanese closed off other means of ingress and egress. The care of the road and its use constitutes one of the most dramatic chapters of the war. But its postwar commercial use will be a different matter from a commercial cost point of view.

Rivers. The importance of rivers in Europe as a natural means of transportation has raised some interesting questions of sovereignty because of the geographical conditions which exist—a river having its origin in the mountains of one country flows through several others and has its mouth in still another; or it may serve as a boundary between two or more countries along its course. From a point of view of strict sovereignty, each country could forbid the use of that part of the river flowing through its territory to the countries above and below it. It is also not difficult to picture the complications resulting from the second situation when each state claims ownership to the middle of the main channel (A point which does not remain the same) or to realize the difficulties when important bridges cross with opposite ends in different jurisdictions. Or consider the problems raised by the Danube River which along its course of 1,725 miles is joined by 300 tributaries and drains an area of 320,000 square miles. Rising in the Black Forest mountains, it empties into the Black Sea, serving as the boundary between Bulgaria and Rumania, Yugoslavia and Rumania, and flowing through the jurisdictions of a number of other countries.

The Treaty of Versailles internationalized the Danube as well as the Rhine, the Oder, the Elbe, and the Niemen Rivers in order to remove the jurisdictional problems presented and to afford access to the sea for land-locked countries such as Switzerland and Czechoslovakia. International commissions were set up to control these rivers, to make plans for their

improvements, to assess costs on the riparian states, and to insure that navigation is open to all flags on an equal footing. Provisions were made to cover collection of customs on goods reaching their destination, but goods passing along the river in transit to other countries were to be free of such charges.

Ocean Transportation. Finch and Trewartha in their *Elements of Geography* give an excellent statement showing the importance and advantages of the ocean as a medium for transportation:

> It has been said that the nation that does not front upon an ocean is like a house that is not upon a street. This is because the oceans form a world highway that belongs exclusively to no one, reaches everywhere, and can be used by each and all that possess a bit of its shore. Here nature furnishes the roadway and there are no construction costs, no taxes, no upkeep. Costly improvements in the right of way in the form of surveying, dredging, and marking are necessary only in restricted bays, rivers, and the harbors of some of the terminal trade centers. Port cities are so eager to engage in world trade that they provide facilities for docking, loading, and unloading, and for taking on fuel at comparatively small expense to the ships. This, together with the free use of the ocean highway, helps account for the cheapness of ocean transportation.[13]

Ocean routes are determined, not by law or international agreements, but by geographical factors—sailing distances, wind, ocean currents, storm and fog areas, ice hazards, cargo possibilities, good ports, fueling stations, the possibility of using canals, and population centers. The bulk of ocean shipping, accordingly, follows a number of routes of varying importance:[14]

1. North Atlantic route
2. Mediterranean-Orient route
3. North Sea–River Plate route
4. Cape of Good Hope route
5. Inter-Americas West route
6. Inter-Americas East route
7. North Pacific route
8. North Europe–Panama route
9. Magellan–South Pacific route

Maps III and IV show the principal shipping lanes.

The North Atlantic route connecting the United States with Europe accounts for more than one-fifth of the ocean tonnage, employing that proportion of the world's merchant marine. It is described as "a broad northward-curving band running in a northeast-southwest direction roughly between latitudes 40 and 50 degrees."[15] Its importance is shown further by the fact that traffic is heavy enough to warrant lanes for eastbound and westbound traffic that are miles apart and separate lanes for low-powered

[13] *Ibid.*, p. 755.

[14] White, C. Langdon, and Renner, George T., *Geography: An Introduction to Human Ecology* (New York: D. Appleton-Century Co., 1936), p. 568.

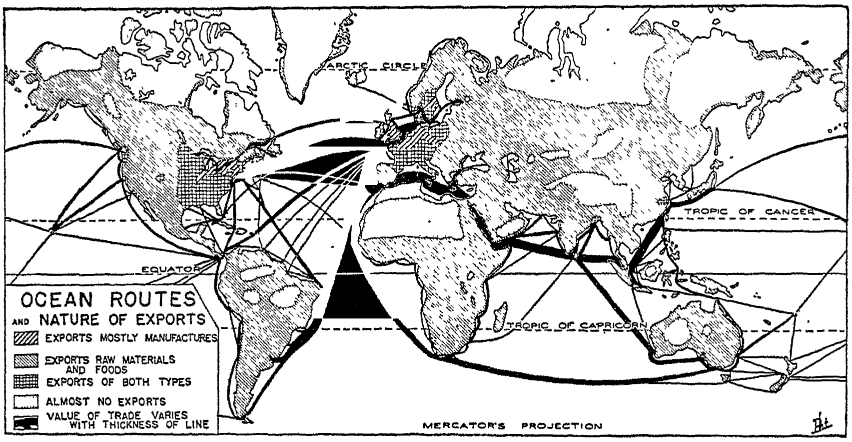
[15] Finch and Trewartha, *op. cit.*, p. 756.

steamers and fast vessels—precautions which lessen the danger of collision in fogs, which are prevalent along this route.[16]

The Mediterranean-Orient route is next in importance. It passes through the Mediterranean Sea to the Suez Canal, and thence to India, the East Indies, China, and Japan. Side routes continue to Australia and the eastern coast of Africa.

Little of the traffic on this route goes the entire distance, but the destinations of the cargo are usually so arranged that through ships have little trouble in obtaining at least a moderate tonnage on all parts of the route. Thus, a ship may leave Japan with a cargo of textiles and other manufactured goods, discharge part of this cargo in the Philippines and replace it with copra or with rubber in the East Indies, and so on. On the return trip, European manufactured goods are carried which are replaced at various stops by Indian cotton, rice,

MAP III*



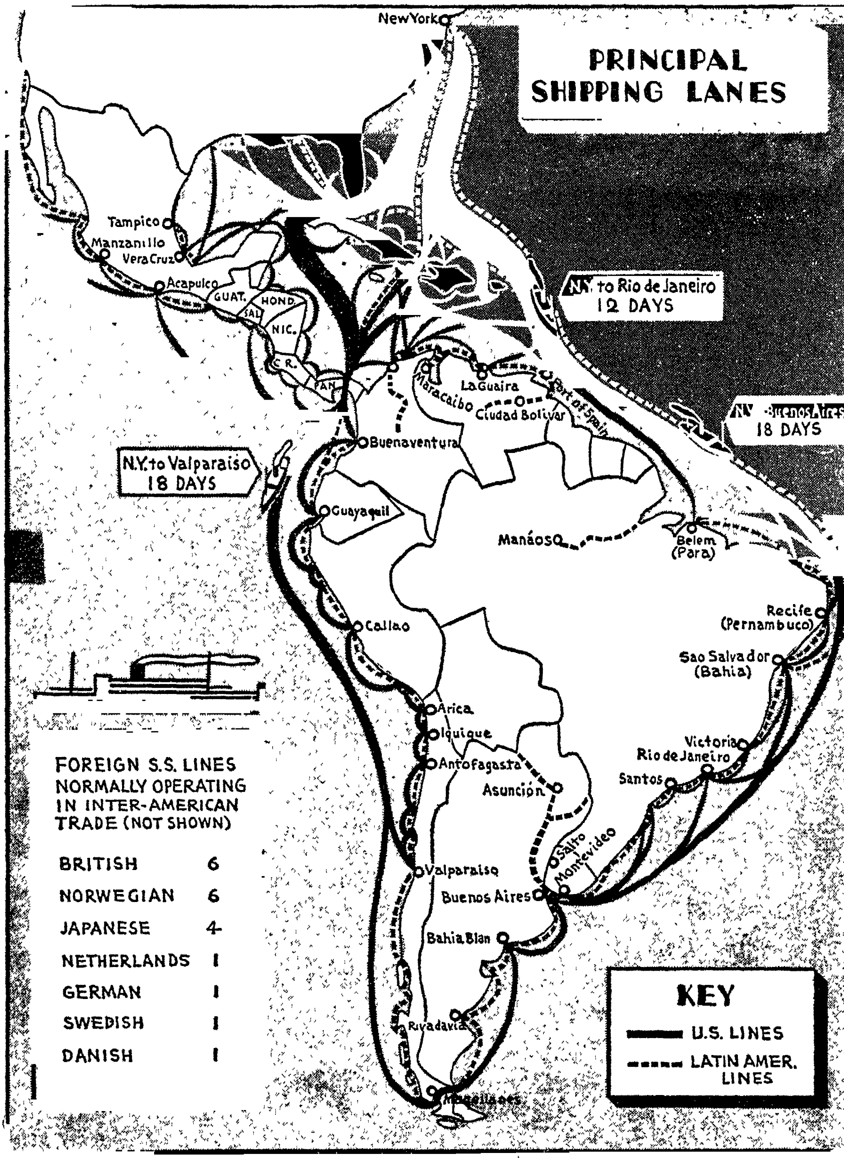
* From Klimm, Lester E ; Starkey, O. P.; and Hall, N. F., *Introductory Economic Geography* (2d ed., New York: Harcourt Brace & Co., 1940), p. 269

rubber, and other raw materials for the factories of Japan. Singapore, Colombo, and Hong Kong are visited by almost every ship on this route because of the tremendous entrepôt trade at these ports.[17]

Canals. The use of the Suez Canal cuts off about 4,000 miles for a cargo from Liverpool to Calcutta, but many ships follow the longer route around South Africa to avoid the heavy canal tolls.[18] Slightly more than 100 miles in length, the canal can be passed through in less than twelve hours. In terms of tonnage the Suez Canal is normally much more important than the Panama Canal, although this was not true in the early forties.

[16] Klimm, Starkey, and Hall, *op. cit.*, p. 282.
[17] *Ibid.*, pp. 282–83.
[18] Finch and Trewartha, *op. cit.*, p. 758.

MAP IV*



* Raushenbush, Joan, *Look at Latin America*, Headline Books, No. 27 (New York: Foreign Policy Association, Inc., 1941).

By international agreement, the Suez Canal is open to all nations and free from blockade. The Panama Canal, half as long as the Suez, is likewise important because of the distance it saves. For example, the trip from New York to San Francisco by way of Cape Horn at the southern tip of South America, is 15,348 miles. By going through the Panama Canal, 6,059 statute miles are cut off—about 40 per cent of the distance. The trip through the canal requires between seven and eight hours. The average tolls paid by each ship passing through has been in the neighborhood of $4,000. Table 50 shows the southbound, or Atlantic to Pacific, and the northbound, or Pacific to Atlantic, traffic during the twelve fiscal years, 1929–40 in terms of vessels, cargo tons, and tolls levied. The reason for the designations

TABLE 50

TRAFFIC THROUGH THE PANAMA CANAL, FISCAL YEARS 1929–40, IN TERMS OF VESSELS, CARGO, AND TOLLS*

Fiscal Year Ending June 30	Southbound Atlantic to Pacific		Northbound Pacific to Atlantic		Total		Tolls Levied
	Vessels	Cargo, Tons	Vessels	Cargo, Tons	Vessels	Cargo, Tons	
1929	3,279	9,873,529	3,010	20,774,230	6,289	30,647,768	$27,111,125
1930	3,051	9,472,061	2,976	20,546,368	6,027	30,018,429	27,059,999
1931	2,717	6,670,718	2,653	18,394,565	5,370	25,065,283	24,624,600
1932	2,273	5,631,717	2,089	14,167,269	4,362	19,798,986	20,694,705
1933	2,184	4,507,070	1,978	13,654,095	4,162	18,161,165	19,601,077
1934	2,753	6,162,649	2,481	18,541,360	5,234	24,704,009	24,047,183
1935	2,676	7,529,721	2,504	17,779,806	5,180	25,309,527	23,307,063
1936	2,770	8,249,899	2,612	18,256,044	5,382	26,505,943	23,479,114
1937	2,865	9,895,632	2,522	18,212,743	5,387	28,108,375	23,102,137
1938	2,946	9,688,560	2,578	17,697,364	5,524	27,385,924	23,169,889
1939	3,146	9,011,267	2,757	18,855,360	5,903	27,866,627	23,661,021
1940	2,763	9,819,600	2,607	17,479,416	5,370	27,299,016	21,144,675

* *1941 Britannica Book of the Year* (Chicago: Encyclopædia Britannica, Inc., 1941) p. 522.

"northbound" and "southbound" is the fact that the canal runs north and south, not east and west as so many people assume. The figures, of course, do not include canal vessels, United States Army and Navy, Panamanian government, or Colombian Army and Navy vessels. They include ocean-going commercial vessels over 300 net tons, Panama Canal measurement.

The make-up of the cargo of vessels passing from the Atlantic to the Pacific Ocean and from the Pacific to the Atlantic Ocean throws an interesting light on the course of trade. Table 51 gives this information for the fiscal year ending June 30, 1940—the last year of peace. In general, the cargoes to the Pacific were manufactured and processed goods. The cargoes to the Atlantic consisted of raw materials and vegetable products in the main.

The Kiel Canal, too, is important because it permits vessels to reach the

TABLE 51

THE PRINCIPAL COMMODITIES TRANSPORTED THROUGH THE PANAMA CANAL BY DIRECTION OF TRANSIT, FISCAL YEAR ENDING JUNE 30, 1940*

Commodity from Atlantic to Pacific (In Long Tons)		Commodity from Pacific to Atlantic (In Long Tons)	
Manufactures of iron and steel	1,837,593	Lumber	3,669,482
Mineral oils	1,294,886	Ores	2,165,646
Scrap metal	968,045	Mineral oils	2,014,237
Paper and paper products	394,021	Sugar	1,455,083
Sulphur	353,452	Nitrate	1,361,422
Coal and coke	330,542	Canned food products	1,248,059
Various metals	316,627	Various metals	706,001
Raw cotton	277,978	Wheat	611,961
Tinplate	243,784	Food products in cold storage (except fresh fruit)	444,291
Phosphates	220,647	Wood pulp	275,350
Machinery	205,210	Vegetable oils	211,457

* *1941 Britannica Book of the Year* (Chicago: Encyclopædia Britannica, Inc , 1941), p. 522.

Baltic Sea from the North Sea without the necessity of sailing around Denmark. This canal was internationalized in effect by the Versailles Treaty so that it would remain open for the use of all nations.

The Importance of Terminals. A distinction must be made between good harbors and good ports. There are hundreds of good harbors that have no trade because they lack the other physical and economic advantages necessary to a good port—for example, the good harbors of western Canada and Alaska and southern Chile and Norway. In making this distinction, it is necessary first to see what is a good harbor:

An ideal harbor is a coastal indentation safe for navigation where a ship is protected against storm waves. The term harbor has nothing to do with trade; it is simply a place of refuge. The ideal harbor is bottle shaped with an entrance wide and deep enough to accommodate traffic but narrow enough so that storm waves cannot enter. The harbors of New York, San Francisco, and Rio de Janeiro are of this type. A good harbor likewise requires ample depth of water, spaciousness, an extensive water front for pier space, freedom from ice, and small tidal range.[19]

A good port involves not only a good harbor but also (*a*) a large productive and consuming hinterland; (*b*) easy access to the hinterland; (*c*) location on or close to one or more of the main world trade routes; and (*d*) mechanical facilities for handling freight and passengers.[20] The term "hinterland" is of German origin and refers to the land which lies behind the seacoast. A casual consideration of the port of New York or of any of the other great ports suggests quickly the importance of this hinterland—

[19] *Ibid.*, p. 764.
[20] *Ibid.*, p. 763.

populous, valuable, teeming with manufacturing or commercial activity. We can readily see why a hinterland of some 11,000,000 people in New York and neighboring New Jersey, with some 160 cities and towns, and housing over 40,000 manufacturing plants should make New York the great port of the world. The port itself is 1,500 square miles in area (about three-fourths the size of the State of Delaware). It includes 260 miles of improved channels, ranging from 30 to 45 feet in depth; 65 anchorages, covering 145 square miles; 2,000 piers; and 600 miles of waterfront. It has 30,000,000 square feet of warehouse space. It is serviced by 600 tugs and by more lighters, scows, and floating equipment than any other port. It has accommodated over 500 ships and loaded 125,000 tons of cargo in a single day.

In a normal year the port of New York[21] handles 10,000 sailings involving 120,000,000 tons of commerce valued at $10,000,000,000. In the average month of a normal year, the sailings assume this pattern:

Destination	*Sailings*
Central America and the Caribbean	120
Far East	32
United Kingdom	31
Rotterdam and Antwerp	29
East coast of South America	28
The Baltic	21
Canadian Atlantic ports	20
The Mediterranean	18
South and east coasts of Africa	12–15
West coast of South America	8
India and the Red Sea	5
West Africa	4
Australia	4

The port of Baltimore is the second seaport of the United States both in total water-borne commerce and foreign commerce; and it is first in shipments westward through the Panama Canal. The port has 343 piers and wharves. The federal government owns 9 of these; the railroads 99; the city 41; and private interests 194. Baltimore has twelve United States Customs bonded warehouses. An outstanding geographical advantage of Baltimore is its relative freedom from such impediments to commerce as fog, ice, and violent winds. On the average, there are only 14 days per year when fogs are dense enough to make visibility 1,000 feet or less. Ice storms average less than 4½ days per year. This makes Baltimore a seaplane base as well. The port is on the principal routes of the world. It is connected by regular service of some 40 overseas transportation companies to 134 ports in 65 foreign countries.

[21] The United States Army Corps of Engineers publishes *Port and Terminal Charges at United States Ports*. Data for the port of New York are taken from the *Journal of Commerce*, 2d Sec., November 12, 1946.

We can readily see, in view of the importance of terminals, then, why governments spend great sums of money on seaports and why they establish free ports, free zones, and bonded warehouses in their desire to encourage and facilitate trade. The goodness of the ocean as a medium for transportation depends in a large measure on the terminal facilities awaiting the ships at the beginning and end of their journey.

Air Lanes. Air lanes are conditioned somewhat like sea lanes—by both military and geographical considerations. The latter include weather conditions, climate, fog and atmospheric conditions, mountainous conditions, and terminal facilities. Air lanes are not as old as sea lanes and for that reason are not clearly established because of sovereign claims to the air by subjacent countries. They are likewise still of little importance as cargo carriers. Air lanes that ultimately involve overseas flight frequently pursue a route over land as far as possible. They take advantage of the spherical shape of the earth, which leads to some apparent oddities such as traveling east or west in the Northern Hemisphere by flying north, and so on. They have focused attention on the far north because flights over the top of the world can be made in summer with daylight all along the route. They have the advantage over water routes in their directness and in the speed they permit. Seattle, Washington, for example, is 2,000 miles nearer Copenhagen, Denmark, and other European cities by air than by water. Some idea of the air lanes can be had by looking at some of the established routes on Maps V and VI.

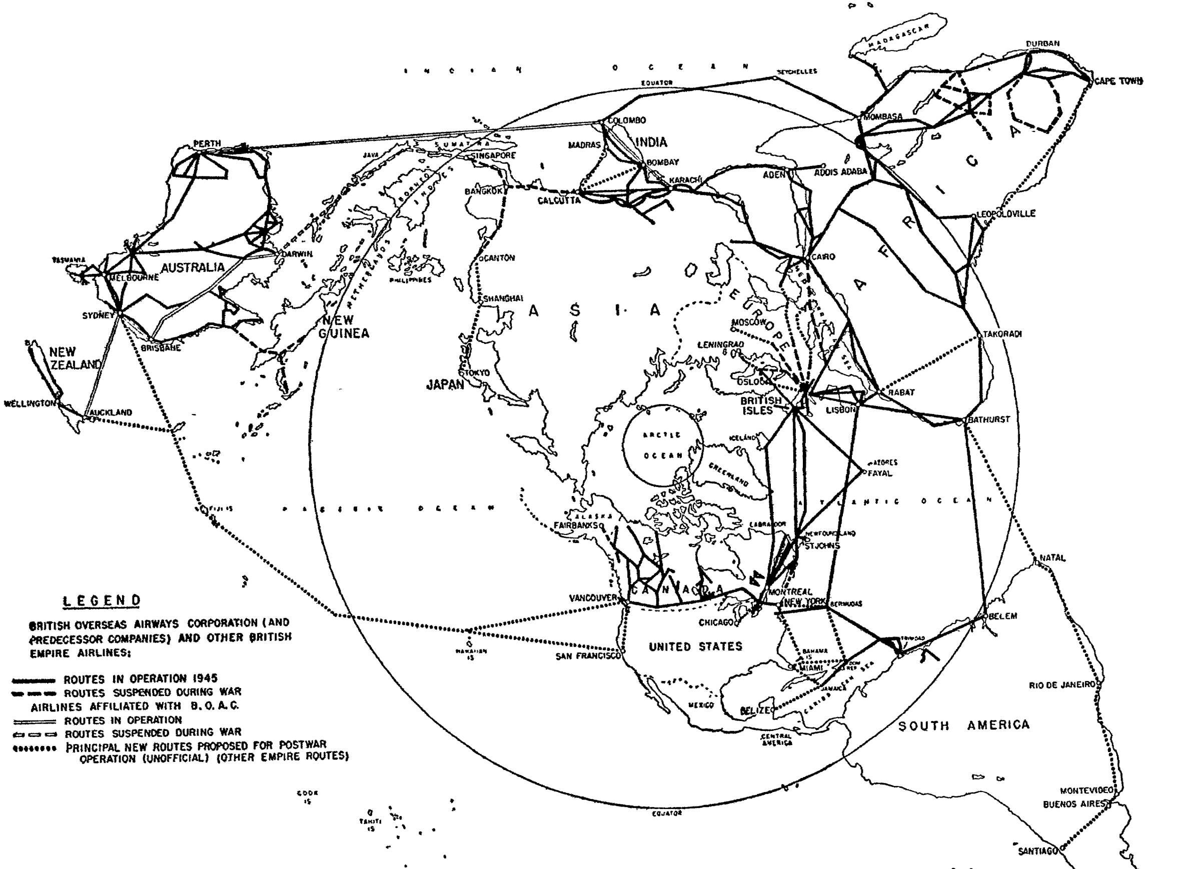
New York is important in air lanes just as in sea lanes.[22] Regular air routes connect that city with the various leading cities and countries of Europe, northern Africa, and Latin America. Following is a listing of the systems and air destinations:

Air France	New York to Paris
American Overseas Airlines	New York, Eire, England, the Netherlands, Scandinavia
British Overseas Airways Corporation	New York to the British Isles
KLM (Royal Dutch Airlines)	New York to the Netherlands
Pan American World Airways	New York to Bermuda
	New York, Eire, Portugal, French West Africa, Liberia, Belgian Congo
	New York, Puerto Rico, Trinidad, Brazil, Uruguay, Argentina
Scandinavian Airlines System	New York, Norway, Sweden, Denmark
Trans World Airlines	New York, Eire, France, Switzerland, Italy, Greece, Egypt
	New York, Eire, Portugal, Spain, North Africa, Egypt

22 *Ibid.*

MAP V

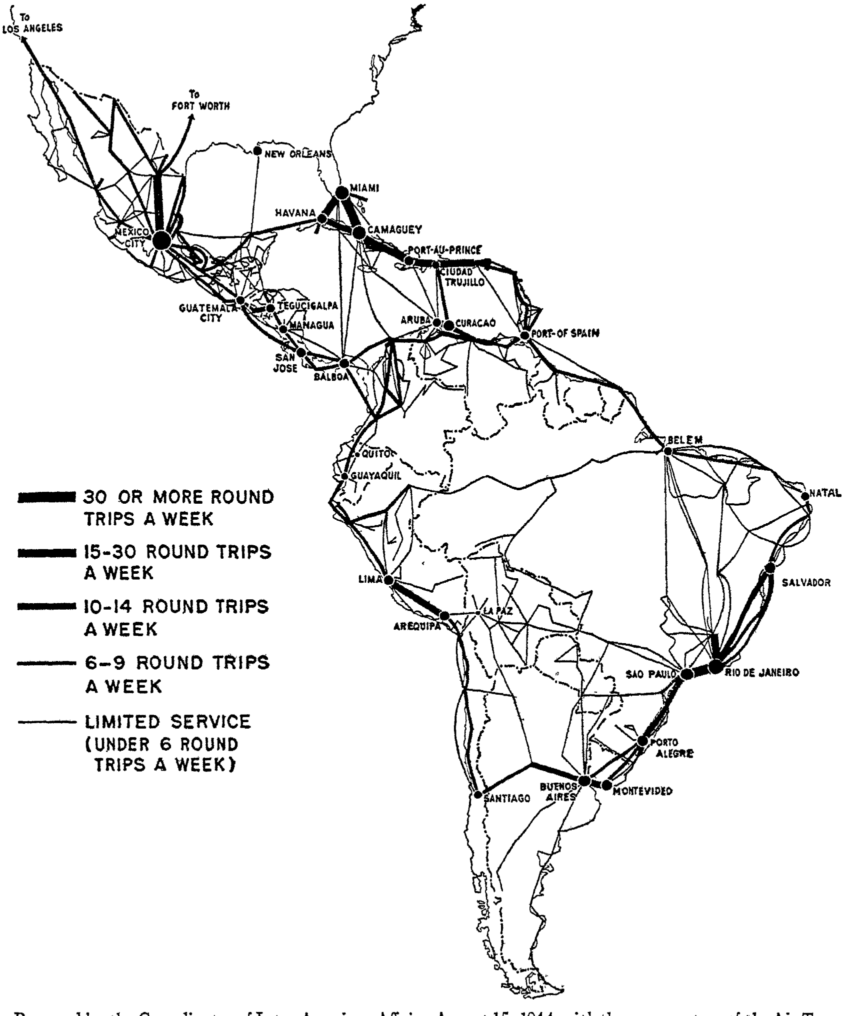
Principal Air Transport Routes of the British Empire



Prepared by the Graphic Development Unit, Department of Commerce. Based on map "Principal Air Transport Routes of the British Empire—1945," issued by American Republic Division, Defense Supplies Corporation, with the co-operation of Air Transport Information Division, Economics Bureau, Civil Aeronautics Board, January, 1945. Reproduced from *Foreign Commerce Weekly*, March 30, 1946.

MAP VI

INTER-AMERICAN AIR ROUTES AND FREQUENCY OF COMMERCIAL AIR SERVICE



Prepared by the Co-ordinator of Inter-American Affairs, August 15, 1944, with the co-operation of the Air Transport Information Division, Economics Bureau, Civil Aeronautics Board. Based on the Bipolar Oblique Conic Conformal Projection, American Geographical Society Outline Map Series, No. 5, "The Americas."
Reproduced from the *Pan American Yearbook* (New York. Pan American Associates, 1945).

In the realm of air-borne freight, New York's La Guardia Field handles the largest amount of freight in terms of value. But Miami is our largest terminal for air freight from other countries on a shipping basis. Los Angeles and Texas airports are likewise important. The year 1947 on the basis of the first quarter promises to witness a doubling of the freight carried by plane between the United States and other countries. In terms

of our world trade, however, the amount now carried is but 2 per cent of the total. Our government has calculated, however, that 16 per cent of our commerce is of the type that could be transported by air—commodities that have a high value per pound; commodities that have a high degree of perishability; and commodities requiring speed of transport for reasons of fashion, and so on. Goods can be flown from Cleveland to Oslo, for example, in twenty-seven hours for $1.48 per pound for packages weighing 100 pounds. Shipments from the Pacific coast to Rome can be landed in thirty-four hours. The rate is $2.02 per pound on a 100-pound basis.

Commodities now sent from the United States to other countries include medicines, fabrics and clothing, parts for vehicles and machinery, fountain pens, photographic and optical goods, furs, and samples. Commodities now brought to the United States by air include diamonds, semiprecious stones, rare metals, leather products, medicines, Swiss watches, and avocados from Cuba. The United Air Lines has entered air freight agreements with Scandinavian Airlines System (S.A.S.) and the Royal Dutch Airlines (K.L.M.) through which seventy United States cities are linked with forty major European market areas.[23]

SUMMARY

Geographical conditions have a great influence on international trade in determining not only what is produced but where and how it is to be transported. They also influence standards of living which, in turn, are closely associated with purchasing power. Geographical conditions underlie the fundamental principle of international trade, namely, the doctrine of comparative advantage which teaches that each nation tends to supply the world market with those commodities in which its labor shows the greatest effectiveness in making and bringing them to market. The degree of effectiveness differs the world over and is conditioned by the factors that influence both natural and human resources.

Geographical conditions also underlie trade routes and determine the use of rail, river, highway, ocean, and air transportation. In Europe, river transportation has been of such importance as to occupy a place in international law. The Panama Canal and other canals have proved of great significance.

Terminals likewise have been almost as important as the transportation routes themselves. A good port must possess certain characteristics. These are possessed in a high degree by the New York and Baltimore ports. The growing importance of the airplane has likewise emphasized the need for terminal facilities and international regulation.

QUESTIONS FOR DISCUSSION

1. Show how geographical conditions underlie and influence international trade.

[23] *World Report*, May 6, 1947; *Business Week*, April 26, 1947.

2. Show how geographical conditions contribute to nationalism.
3. To what extent can shortcomings in geographical advantages be offset?
4. State and illustrate the doctrine of comparative advantage. Apply it locally to the economic activity in which your home community excels.
5. To what extent can Latin America be pictured ultimately as the counterpart of North America in industrial development?
6. Make a list of the "have-not" countries, and suggest where and how they obtain their supplies.
7. What are the principal river routes of Europe? How important are they?
8. Summarize the important features of ocean transportation.
9. Discuss the significance of the Panama Canal to the international trader.
10. What characteristics are needed for a good port? Which, if any of them, are man-made?

CHAPTER XXVII

THE PROBLEMS OF INTERNATIONAL TRADE

A Basic Question and an Answer. There is one great question to be answered in the field of tariff and commercial policies. It is a question that the student of international trade begins to ask when he studies the first commercial policy and one that he becomes more concerned with as he advances. The question is this: Why have governments given so much attention and so much aid to international trade and finance, even at the expense of domestic economy?

We have already studied one answer which still holds true. It is the mercantilistic belief that international trade is a force which must be harnessed for nation building; that what happens inside of a nation is not as important or productive of wealth as that which happens in the nation's relationships in the world markets; that a nation can control its own affairs but must be prepared to face the competition and jealousies of others in international relations.

For a long time, of course, men of good will had hoped that this answer would lose its pertinence once nations had "grown up"; that it was a phase of nation building that would pass once the map of the world was completed. But two world wars and the present wrangling over boundaries are too fresh in our minds to assume that the map has reached a final form, that all nations now have their boundaries, that all nations have reached their goals, and that each has its raw material resources or has found an amicable way to get them. Thus, the emphasis of mercantilism on treasure, goods, population, food, ships, and colonies still constitutes one answer to the question as to why nations have singled out foreign trade for special attention and treatment. It is rarely that one picks up a copy of a newspaper, or *Time*, *Newsweek*, *World Report*, *Foreign Commerce Weekly*, or other publications that stress the current scene without finding some reference to legislation passed in one country or another having to do with population encouragement, colonial rule, merchant marine, larger food supply, international exchange, and similar topics. It is noteworthy, moreover, that international economic relations are passing more and more into state departments and departments of foreign relations and away from departments of commerce.

Another Answer to the Same Question. But there is another answer to our question which might be called paternalistic rather than mercantil-

istic. A government assumes a paternalistic, fatherly, or protective attitude toward its people. Or to rephrase this in the language of the people themselves, let us put it this way: We, the people, seek to protect ourselves from forces outside of our territorial jurisdiction and to protect ourselves and our interests when we or they are outside of our jurisdiction. We want the rights to travel and trade abroad, to send out exports and derive benefits from our imports. To do so, we authorize our government to establish policies dealing with international affairs.

This position sometimes proves embarrassing because we hold to some sort of individualism, some degree of laissez faire in domestic affairs. Witness the cries that went up—and still go up—when legislation is passed favoring the farmer or the laborer. Yet there has never been, in this country at least, any great cry against helping the businessman who faces the competition of imports from abroad. The controversy has been confined more to the *degree* of protection granted the businessman. The cries against helping the exporter are yet to be heard. One reason is that there is this paternalistic feeling in our people which is reflected in our government; the other is that few people have ever stopped to realize the large amount of aid that has been given, and is being given, to our exporters. In short, we feel paternalistic toward our fellow-citizens when they leave the familiar and controllable home scenes to buy goods for importation or seek foreign markets for their exports, thus facing the problems of different languages, different customs, different monetary systems, different laws, different jurisdictions, and different sovereignties. We build this feeling into commercial policies.

The Purpose of This Chapter. It is our purpose in this chapter to lend a touch of realism to our subject by discussing the problems that our businessmen face both as exporters and importers. There will be necessarily a certain amount of overlapping since the policies already developed in the preceding chapters tend to serve as the solutions to the problems here developed. The overlapping nature will not make the chapter repetitious since the detail found here will be of a different type. Rather, it will help to review the subject matter of the text.

Two Basic Sets of Problems. International and domestic trade have much in common. Both involve goods, services, buyers, sellers, transportation, insurance, financing, and collection. The differences between them are partly differences in kind and partly differences in degree, although, when differences in degree become marked enough, they virtually become differences in kind. The greatest differences will show up when the domestic trading problems of a small compact country with a homogeneous population are compared to those of foreign trade. The smallest differences, on the other hand, will be noted in a country that covers a large area—large enough for differences to exist between the "East" and

the "West," or the "North" and the "South." We find some differences in the United States. We find great extremes in China where the language differences are so marked that Chinese from one region cannot understand fellow-Chinese who live elsewhere. Extremes are found, too, in India where the population is broken up by caste, religion, and distance. In Russia, too, were domestic trade in private hands, the trader would find himself dealing with various nationalities, various jurisdictions, various languages, and a multitude of customs. In general, however, where one country is under consideration, there is always one central government which places a final limit on differences within a country—one supreme court, one currency system, one system of weights and measures, and so on. In international trade this one centralizing power is lacking. It is this lack which gives us many of our problems.

A Listing of the Problems. For purposes of analysis, let us divide the problems of international trade into two types: (*a*) those growing out of distance, and (*b*) those arising from sovereignty. The international trade problems that grow out of distance may be listed as follows:

1. *Differences in Customers.*—Nationality, race, religion, language, customs, culture, standards of living and purchasing power, wants and preferences, local taste and adaptability of exports to those tastes
2. *Differences in Business Methods.*—The response to advertising, salesmanship, correspondence, credit structure, business hours, selling seasons
3. *Differences in Packing and Shipping.*—The elements of climate, moisture, pilferage, perils of the sea, insurance coverage

The problems growing out of sovereignty, in turn, are these:

4. *Differences in National Standards.*—Monetary standards, weights and measures
5. *Differences in Commercial Laws.*—Credit, trade-mark protection, "judicial deposit," the conflict of laws and legal philosophy
6. *Differences in Documentation.*—Commercial invoices, packing lists, exporter's declaration, bills of lading, marine insurance policies or certificates, drafts, visaed consular invoices, sanitary certificates, certificates of origin
7. *Commercial Policies Intended to Promote the Interests of a Country's Own Nationals.*—Tariffs (protective, prohibitive, revenue, preferential, countervailing, antidumping), export and import licenses, quarantine regulations, buy-at-home movements, exchange restrictions, government monopolization of certain products, cartel encouragement or control; subsidies and other aids to production, shipping, shipbuilding, and fisheries; marks-of-origin regulations, milling and mixing restrictions, public contracts, confining business to nationals, export credit guarantees, consular service, the multitude of other services by the Executive branch

of government, the negotiation of favorable commercial treaties and agreements

THE PROBLEMS GROWING OUT OF DISTANCE

1. Differences in Customers. We are not offering here a detailed study of each of the elements listed among the differences in customers but rather a series of examples to bring out their significance. International trade involves distance. Distance, in turn, involves geographical differences which are the bases for trade. The monopoly that the peoples of the equatorial zone have on many basic agricultural products brings them into commercial contact with the peoples of the more temperate climates. The people in the latter zones, in turn, have products that the others need. With few exceptions, notably Japan, a country exports its surplus rather than products made especially for export. The Japanese used to produce dishes, for example, with modern methods for export to the United States, while making dishes for their own use in the ancient manner of their ancestors. They likewise manufactured American flags which they certainly did not use in Japan. For the vast majority of countries and products, the question of selling abroad frequently hinges upon the adaptability of products, made to suit domestic needs, to foreign tastes and requirements. When the foreign taste is clearly established and when catering to such taste "pays," domestic manufacturers will recognize the situation. For example, automobiles built for use in the United States where the rule of the road is, "Keep to the right," will not be adaptable to foreign countries that have the rule, "Keep to the left," unless the steering wheel is placed on the opposite side of the car. The standard automobile tires found on the automobile in this country are not suitable for all roads in different parts of the world. The preference of southern peoples for edible oils over solid fats and the opposite preferences of northern peoples is another example.

The people of Brazil understand Spanish, but they prefer Portuguese. Hence, no generalization that advertisements in Spanish are effective all over Latin America is valid. We know of one case where a steel manufacturer spent $1,500,000 on such a campaign in Brazil, using the Spanish language, only to learn later of his poor judgment. A country where personal service is cheap and customary may admire but have little use for laborsaving devices. Some years back, for example, we showed a distinguished Swedish visitor a shoe-shining machine. He was entranced by it. But when we suggested its use in Sweden, he could not understand us. "In Sweden," he said, "we just leave our shoes outside the bedroom door. By morning they have been shined. We don't need such a machine." Another typical reaction met the efforts of our automobile salesmen to expand our market in Britain when the self-starter replaced cranking by

hand. Their boast that "now a woman can drive without worrying about cranking" was met coldly with the assertion that driving a car is man's work and British women would not be interested. Some years ago, a Latin-American country sent a substantial order for agricultural equipment to one of our firms. Among the specifications was color. The equipment was to be painted yellow. Our stock happened to be red. It was shipped. But the buyer complained that he could not dispose of it because for centuries his people associated yellow with agriculture. This necessitated sending a crew of painters to transform the color to meet local tastes.

Religion plays a part in the make-up of a population and its wants. In Argentina where the population is largely Roman Catholic, many of the feast days of the church are scrupulously observed, with government offices and businesses closed. There are seventeen national holidays, all but two of which are religious in origin. They must be taken into account by our salesmen. In Brazil, although there is no state religion, Roman Catholicism predominates, and the constitution forbids divorce. This suggests, among other things, that a good part of our fiction, some of our moving pictures, and some of our publicity about notables will not be received with enthusiasm. The religious significance attached by the Chinese to certain colors and designs serves to curtail the use of packaging and trade marks that might be very successful in the country of origin.

The United States exporter will not find much of a middle class in many countries with which he would like to trade. It has been estimated that not more than 15 per cent of the people of Brazil are in a position to purchase anything beyond the barest living necessities. In Latin America, the customers who have purchasing power may also have sentimental ties to the Old World, which makes them poor customers for our exports. He will likewise come to a rude awakening if he assumes that necessities are the same the world over. An interesting estimate was made in 1937 as to the annual per capita consumption of soap in different countries of the world—an item that we would agree is a "necessity." The world average was 6.6 pounds per year (for eighteen countries). The highest consumption was found in the United States—25 pounds per person, per year. The lowest was that for China, one-tenth of a pound per person, per year. Table 52 must be analyzed remembering some of the qualifications suggested in the previous chapter for any standard-of-living index; however, it does suggest a great deal about differences in consuming habits and living conditions.

The ability to read differs in different parts of the world and plays a part in conditioning a people's wants. Estimates made at different times suggest that 97 per cent of the population of the Dutch East Indies cannot read; that 90 per cent of the people of British India, 88 per cent of the people in some sections of South Africa, 60 per cent of the people of

Brazil, 45 per cent of the people of Mexico, 35 per cent of the Filipinos, 10 per cent of the Russians, and 1 per cent of the Japanese belong in this classification.[1]

People differ, too, in their food habits. Professor Hoyt, writing about "how people get their energy supply," has divided that supply into energy "from cereals and potatoes," and energy "from other sources." The people of the United States, the United Kingdom, Canada, and Australia rely on the former for only 35 per cent of their energy; those of Germany, Norway, and the Netherlands for 45 per cent; those of France, Argentina, Uruguay, and Eire for 55 per cent. The people of Italy, Spain, and Latin America find 65 per cent of their energy coming from this source; those

TABLE 52

ESTIMATED ANNUAL PER CAPITA CONSUMPTION OF SOAP IN EIGHTEEN COUNTRIES IN 1937*

Country	Pounds per Capita	Country	Pounds per Capita
United States	25.0	Peru	7.8
Netherlands	24.0	Chile	7.7
Denmark	22.0	Japan	7.0
Canada	22.0	Brazil	6.8
Germany	21.0	Soviet Union	5.7
United Kingdom	20.0	Mexico	5.0
France	20.0	Argentina	4.5
Sweden	19.0	British India	0.2
Italy	9.5	China	0.1
		World average	6.6

* *Soap*, Vol. XIII, No. 11 (November, 1937), p. 35. Printed in Hoyt, Elizabeth, *Consumption in Our Society* (New York: McGraw-Hill, 1938), p. 249.

of North Africa, Japan, and Poland 75 per cent; and those of central Africa and the rest of Asia for 85 per cent.[2] This throws light on their ability to buy other foods—sugar, meats, fruits, and the unlimited variety of items that we like to include in our menus.

Taking these factors and many others like them into account, we can appreciate the soundness of the advice given in *Export-Import Practice* that "buyers in foreign countries are extremely reluctant and slow to change their buying habits, and it is far easier to adapt your customs to theirs than to endeavor to educate them in American domestic-market methods of doing business."[3]

2. Differences in Business Methods. These examples which suggest differences in customers likewise make necessary differences in business

[1] Hoyt, Elizabeth E., *Freedom from Want: A World Goal*, Public Affairs Pamphlet No. 80, 1943, p. 14.

[2] *Ibid.*, p. 4.

[3] Eldridge, F. R., and Others, *Export and Import Practice* (Washington, D.C.: U.S. Government Printing Office, 1938), p. 36.

methods. Where the printed word does not mean much to a large segment of the population, the use of advertising—billboard, placard, newspaper, magazine, handbills, catalogue, and direct mail—is badly curtailed. Advertisers have shown, of course, their expected ingenuity by using symbols such as a fish or a cat which the illiterate buyer can readily recognize or ask for in his purchasing. The use of billboard advertising where highways do not exist or where traffic is light because few people own automobiles is not effective. Streetcar advertising, too, is limited to cities and towns having streetcars. For example, there are only about twenty-five cities and towns in all of Brazil having streetcars. Of these, only two have what might be called well-organized streetcar advertising. Where a buying public does not understand the nature of installment credit, sales are limited almost entirely to cash. Where cash is scarce, as it always is in agricultural communities, business is held in check except for such personal credit as the storekeeper extends until harvest time. In agricultural countries, retail salesmanship has not reached the level attained in more advanced countries. The same is true for show-window displays which in some areas are still covered with shutters at nightfall, thereby losing the value of lighting effects and the appeal to persons who have more leisure to look in shop windows after the day's work is done.

The differences in correspondence and the keeping of records also add to the confusion of the foreign trader. In a number of countries, custom places the address of the firm only on the envelope so that the latter, too, must be filed upon receipt. Some governments frown on loose-leaf systems, the use of carbon copies, and other business forms and devices, and require that copies of all letters be written by hand in bound volumes subsequently to be taxed on the basis of the number of pages used. Many warnings have likewise been sounded against the abrupt, "businesslike" correspondence used in this country, as well as the curt letter sometimes employed in collecting accounts. The former should not be used. The wisdom of sending any letter to hasten payments is questioned because delay in payment often results from a difference in the understanding of credit terms. Seemingly, to some foreign buyers, acceptance of such terms means basically that he will pay—but the "C.O.D.," or "180 days after delivery," do not necessarily mean anything to them. It has been said that sometimes a Chinese exporter will agree to requests for immediate shipment or shipment on a certain date because to refuse would be bad taste—even though he knows that such shipment is impossible. It has also been suggested that a Chinese exporter has been known to misunderstand the nature of quantity buying and is likely to charge more per unit on a large order than a small one on the assumption that his quotation leading to the large order instead of to a small order must have been too low.

The traveling salesman or agent runs into many problems which, of

course, are escaped by the exporter who does not take the initiative to seek orders. These include rainy seasons, foreign living expenses, the handling of foreign currencies, and the elaborate system of taxes. The last-mentioned item is fairly complicated. For example, the commercial traveler who plans to cover the Argentine territory has to obtain a license if he carries samples. He must obtain a separate license in every province and territory, and the fees differ in each and cover different rights. For example, one fee will enable him to represent as many firms as he wants in some districts, while, in others, he must pay a separate fee not only for each firm but for each kind of goods handled. In many cases the full amount of the annual fee must be paid, even though the salesman is in the country only a portion of the year. About 6,000 paper pesos are needed to cover the fees unless the traveler avoids them through the use of a catalogue instead of samples or aligns himself with an importing house in Buenos Aires. He meets with different business hours than he finds at home and runs up against compulsory layoffs of two hours during the day in accordance with the law of countries in warmer climates.

3. **Differences in Packing and Shipping.** "Packing for foreign markets must meet two sometimes conflicting demands—first, the prime necessity of safe delivery of the goods in the foreign customs warehouse, and second, the desire to meet these requirements with the least expense to the importer by way of added customs duties and/or freight rates because of additional weight due to heavy packing."[4] All of us have received packages by mail, which though seemingly wrapped with care by the sender and given reasonably careful handling during transit, arrived in poor condition. Frequently, the content is not affected but the wrapping itself is split or torn or "ready to fall off." Now let us picture merchandise that is sent by train to a port; then loaded mechanically or otherwise on a ship; and then subjected to the factors of a heavy sea, moisture from spray, frost, excessive heat, changing climates, shifting of other cargo through the motion of the ship, proximity to malodorous merchandise; and finally unloaded either directly from the ship in port or into a lighter in the case of ports too small to accommodate ocean vessels. Add to this the possibility of the package standing in the open for days or weeks on a wharf, and you have a picture of what might happen to the package and the content. Assume a fairly long trip, say from San Francisco to Rio de Janeiro which consumes more than six weeks, and you have allowed time for mold, rust, decay, or fermentation to damage the goods beyond salvage—that is, unless the packing has been satisfactory.

There is a further problem associated with insecurely packed merchandise and also with packages that reveal their contents, known as "pilferage." Associated especially with Latin-American commerce, it consists of

[4] *Ibid.*, p. 55.

petty thievery where an unguarded case or barrel or other container is pried open and some of the merchandise is stolen. It is frequently true that no one thief takes much of the merchandise, but the same case might be victimized by a number. One writer cites an instance in which a case of goods arrived from a reputable Chinese exporter which, when opened, revealed nothing but an assortment of rocks. Seemingly, each pilferer had removed some merchandise and replaced it with a rock or stone to prevent detection through a noticeable loss of weight. It is not surprising, then, to be told, "Pack securely and put on the case nothing that will announce the contents to a pilferer."[5] The concealment of the content is accomplished by a system of marking and labeling. Professor Horn explains this lucidly:

> The system of marking cases for export trade differs materially from that used in domestic commerce. All railroads in this country require that each package submitted for shipment bear the name and address of the consignee, and consequently cases are marked accordingly. In export shipments a distinctive symbol or shipping mark is used on the cases, instead of the name and address of the consignee.
>
> There are several good reasons for this practice. In the first place, the name of the consignee on the case would indicate the nature of the contents of the package, and would naturally be an aid to pilferers. For the same reason it is inadvisable to put advertising on the cases, except in those instances where the character of the goods precludes the possibility of pilfering. Pilferers have to work fast, and if cases are marked so that their contents are indicated at a glance, their nefarious activities are greatly aided. Second, the full address would be of no assistance to the longshoremen who handle the cases, since in most instances they cannot read. Case markings should be as simple as possible to make the essential information stand out prominently.
>
> Under the symbol there should appear in large letters the name of the port of destination. This will insure that the shipment is discharged from the boat at the proper point. Each case should be marked with its gross and net weight and its cubic measurements. Weights are generally given both in pounds and in kilograms, as countries using the metric system require that kilograms be used. In fact, most countries use the metric system.
>
> Each case should bear a serial number, and all cases in the shipment must be numbered consecutively. . . . . In addition to the above marks, the name of the country of origin should appear on each case. All case markings should be plainly stenciled with waterproof ink in letters two inches high, on two sides of the case. Since many shipments go astray or are lost in transit because marks are obliterated, the precaution of waterproof ink is very important.
>
> As a means of identifying the bills of lading and other documents that go with a particular shipment, all shipping marks appearing on the case must also appear on the bills of lading and other important shipping documents. In claiming his goods at their destination, the consignee has merely to take his bill of

[5] *Ibid.*, p. 56.

lading to the dock, where the marks on the bill of lading are compared with the marks on the cases, and the shipment thereby identified.[6]

The liability of shipowners for loss and damage differs from and is less than that assumed by railways. The vessels and the owners are responsible when loss or damage is caused by their negligence or failure to load or unload the merchandise properly. But they are not liable for loss resulting from "the perils of the sea." The latter is a broad term covering the dangers of the sea rather than transportation itself. An "International Convention for the Unification of Certain Rules Relating to Bills of Lading" held in Brussels in 1924 attempted to list the losses for which the carrier and the ship could not be held responsible when there was no lack of due diligence. These included losses from the unseaworthiness of the vessel and those arising from:

a) Act, neglect, or default of the master, mariner, pilot, or servants of the carrier in the navigation or in the management of the ship
b) Fire, unless caused by the actual fault or privity of the carrier
c) Perils, dangers, and accidents of the sea or other navigable waters
d) Act of God
e) Act of war
f) Act of public enemies
g) Arrest or restraint of prices, rules, or people or seizure under legal process
h) Quarantine restrictions
i) Act or omission of the shipper or owner of the goods, his agent, or representative
j) Strikes or lockouts or stoppage or restraint of labor from whatever cause, whether partial or general
k) Riots and civil commotions
l) Saving or attempting to save life or property at sea
m) Wastage in bulk or weight or any other loss or damage arising from inherent defect, quality, or vice of the goods
n) Insufficient packing
o) Insufficiency or inadequacy of marks
p) Latent defects not discoverable by due diligence
q) Any other cause arising without the actual fault or privity of the carrier, or without the fault or neglect of the agents or servants of the carrier

It is possible to insure against a great many of the maritime risks in the ordinary policy. But such a policy would not cover war risks, torpedoes, mines, capture by the enemy, and so on. Special policies can be obtained. Even the risk of pilferage can be covered, although the rates are high.

[6] Horn, Paul V., *International Trade: Principles and Practices* (Prentice-Hall, Inc., 1935), pp. 643–44.

The Commercial Policies Covering the Foregoing. It is important to understand which commercial policies seek to overcome the disadvantages of distance. They include aids to shipping, export credits, bounties, publications of the government, the varied activities of the consular service, participation in international action to standardize practice, and international treaties seeking to win as many concessions for commercial travelers as possible.

THE PROBLEMS GROWING OUT OF SOVEREIGNTY

4. Differences in National Standards. The differences in the monetary systems of the world form one of the most technical problems faced by the international trader and call for trained personnel, bankers, and foreign exchange brokers. Just as nations have distinct languages, distinct flags, distinct postage stamps, and distinct laws, so they have seen fit to have their distinct monetary systems. This has been true from the beginning of coined money. Early in history, the distinction of the monetary system included the standard as well. Some countries were on the silver standard, which meant that they adopted a certain silver coin of definite weight and fineness as the unit in terms of which all other money was interpreted. It also meant special treatment of silver in terms of purchase, inflow and outflow, and so on. Some countries used gold, which, ultimately, with few exceptions became the universal standard. Others attempted the use of both gold and silver simultaneously (bimetallism) by legislating a ratio between a gold and silver unit, each and both of which was regarded as co-ordinate. In abnormal times, for purposes of domestic use only, countries have used a *de facto* paper standard as a result of going off the metallic standard. But in international trade, when payments are made in "money," that "money" must be gold. This gold is accepted on the basis of weight and fineness, not on the basis of count. It suggests the earlier means of payment used in gold-mining regions where sacks of gold dust were weighed instead of counted. In this respect, as in some others, international devices seem to lag behind domestic improvements.

Since gold has long been the international common denominator, each country has seen fit to announce the content of its standard coin in terms of grains of gold. What we called the "United States dollar" until 1934 contained 23.22 grains of gold. Subsequently, through devaluation, the weight was reduced to 13.71 grains of fine gold. The British pound (£) contains 113 grains of fine gold. The two units can be thus equated by comparing their gold content. The question, "What is the British pound worth in terms of United States dollars?" then, is answered by dividing 113 (the gold content of the pound) by 13.71 (the gold content of the United States dollar). The answer is 8.23+. This means that there is enough gold in the British unit to make 8 United States dollars with

enough over to equal about 24 cents toward another dollar. Or to put this in technical language, the mint parity or par of exchange is £1 equals $8.2397. Prior to 1934, it used to be the custom to refer conversationally to the British pound as being worth $5.00 (113 + 23.22 = 4.86).

The other mint parities are worked out similarly by comparing the gold content of the Argentine peso, the Swiss franc, the Yugoslavian dinar, the Spanish peseta, the Brazilian cruzeiro, the Czechoslovakian koruna, the Italian lira, the Netherlands guilder, and others, with the gold content of the United States dollar. The only difference appears in the form of expression. The pound alone contains more gold than the dollar. Hence, all other parities are expressed in terms of the number per dollar, that is, the number of lira, for example, that could be coined from 13.71 grains in the United States gold dollar.

Governments, in the best mercantilistic traditions, have always been concerned about the gold supply. The emphasis has shifted from a crude philosophy of "gold for gold's sake" to "gold for credit's sake," that is, gold as the basis for bank credit. Bringing the picturesque language of the mercantilists up to date, we might say that a sudden outflow of gold is viewed as akin to a hemorrhage—something to be checked at all costs. In normal times, gold exports in modest quantities were not viewed with alarm. In fact, it was normal for gold-mining countries to ship gold abroad. But in abnormal times, governments stood ready to go off the gold standard (which means in effect to refuse to pay out gold or redeem other money in terms of it), to place an embargo on gold exports, and to take possession of their citizens' securities and property in other countries as potential gold supplies. In time of war, governments keep secret the figures which would reveal gold holdings so as not to reveal their strength or weakness.

The use of gold bars and bricks, then, to pay for imports or the importation of gold in payment for exports is something which has become well-nigh theoretical. Entirely aside from the hazards of shipping it and the expenses involved, governments have restricted its flow almost continuously from the beginning of the thirties. In the United States, gold which was imported automatically went to the government because gold is nationalized. But governments have done more than restrict the flow of gold. Through exchange restrictions they have limited and at times stopped expenditures of their citizens in foreign markets or have stipulated on what specific commodities the dwindling supplies of foreign exchange could be expended. In other words, it is difficult to describe what once was normal—a comparatively free flow of funds between countries on the initiative of traders and bankers—in the face of a rigidly controlled monopoly by government. The future depends on the international action in this field through the instrumentality of the International Mone-

tary Fund, which is charged with stabilizing international currencies and preventing disastrous inflationary trends in member-countries that would impair international trade.

For many years now the foreign trader has faced not only the question "Is the customer a good credit risk?" that is, "Will he pay?" but the less easily answered one, "Will his government allow him to pay?" The latter answer has varied from week to week and month to month as one decree after another has followed shifting conditions in one country after another—a situation not conducive to stable and harmonious trade relations.

Even in normal times, however, when payments are permitted, use has been made of various devices to offset the actual flow of gold. They hinge on the use of claims to gold, on the finding of credits already available in the country where payment is due. The problem to be solved is essentially this: An exporter in the United States sends bales of cotton to an importer in Great Britain. The importer lives in an economy using pounds and shillings and pence, but the exporter lives in an economy where the circulation of these is illegal. Two things must be accomplished simultaneously. The equivalent of the amount of the transaction in pounds and dollars must be established, and the exporter or importer must take the initiative in converting pounds into dollars or dollars into pounds. This is the process of foreign exchange. It is the process that ties together the price structures of various countries and allows "world prices" of wheat and other basic commodities to exist, even though expressed in various monetary units. It is involved, necessarily, not only with commodity transactions but with payments to other countries for shipping services, insurance, immigrant remittances, gifts, payment of personnel located in other countries, intergovernmental transactions, interest on loans, dividends on investments, amounts spent for travel, and other so-called "invisible items" which in normal times have amounted to a value figure equal to a country's "visible" or commodity figures.

The Foreign Exchange Market.—Professor Southard described the market in which foreign exchange achieved its functions in 1940 in the following words:

> Foreign exchange is bought and sold by a diversity of persons and institutions in a nation-wide "open" or "over-the-counter" market. If governments leave foreign exchange trading in private hands the transactions ordinarily converge upon the principal financial centers and will be carried on chiefly by the large international banks. When foreign exchange is a government monopoly the market immediately becomes highly centralized, although as a result of the restrictions bootleg or illegal trading frequently develops. In the United States foreign exchange trading is not materially regulated by the government. Consequently the market is "free" in that supply and demand are virtually unrestricted in the determination of exchange rates.

. . . . in the United States there is at all times both a demand for foreign exchange and a supply of foreign exchange. Exchange is created chiefly by those persons and companies that have sold goods and services to foreigners or that have foreign-currency balances derived either from borrowing or from foreign ventures. Some of these "creators" of exchange can use it themselves. For example, an exporter of tin plate might find it convenient to use some of the exchange received in payment to pay for imported raw materials. On the whole, however, the exporter of goods, services, or securities will sell the resulting foreign exchange for its dollar equivalent. On the other hand, the Americans and the American companies who have incurred debts abroad—by importing for example—must buy foreign exchange to make settlement. (This is on the assumption that the debts are expressed in *foreign* currencies. If they are expressed in *dollars* the exchange problem is shifted to the foreign creditor, but the principle is the same.) It is the function of the dealers and the brokers in the foreign exchange market to serve as intermediaries between these two groups.

In the United States, New York City is the principal center of foreign exchange operations. New York banks have the most elaborate foreign departments; and in this city is the greatest concentration of import and export offices. The great New York banks stand ready to buy or sell, at some price, almost any international currency for which, to their knowledge, there is a ready market. . . .

In recent years banks have been overwhelmingly the most important factor in the foreign exchange market both as buyers and sellers and as intermediaries in the collection of dollar and foreign-currency drafts. With the motivating factor of profit as the principal incentive, the banks buy foreign exchange in order to be in a position to sell foreign exchange. They purchase foreign bills in order to build up foreign-currency balances abroad against which they may sell *their own drafts*. For this service they expect to earn the spread between the buying and selling rates. An importer or anyone else who needs exchange to pay an obligation in foreign currency most probably will purchase a sight draft or cable or mail transfer in the appropriate foreign currency, from an exchange banker.

In passing, reference might be made to the foreign exchange broker whose function at present is almost entirely confined to operating as liaison in interbank exchange transactions. The broker acts as an agent, not as a principal, and depends on commissions for his income.[7]

Weights and Measures.—The problem faced by exporters and importers because of differences in weights and measures is not as serious as that of the monetary standard because, when the relationship is once fixed, it does not change. Care must be taken, however, in labeling and quoting prices per units in the world market. The inch, the ton, the bushel, the quart, the gallon do not mean the same in Great Britain and the United

[7] Southard, Frank A., Jr., *Foreign Exchange Practice and Policy* (New York: McGraw-Hill Book Co., Inc., 1940), pp. 35–37.

States. The abbreviation "cwt." often erroneously thought of as a hundredweight and therefore 100 pounds, means 112 pounds in England (as it does here). The libra (pound) differs slightly in Argentina, Chile, Cuba, Mexico, and Uruguay—five meanings in as many countries. The quintal, a measure for wheat, really has five sizes ranging from that of Argentina (101.3 pounds) to the metric quintal (220.46 pounds). Even in the United States, the bushel varies in size. This has its significance for the importer because, while our Federal law fixes the bushel at 2150.42 cubic inches (called a stricken or struck bushel), the United States Court of Customs Appeals has decided that whenever a bushel is mentioned in the tariff, it means "a heaped bushel" or 2747.715 cubic inches—27.8 per cent larger than a struck bushel.

Many countries require the gross and/or net weight to be printed, often specifying that they be in kilos. There is further difficulty because there are no fixed definitions for the terms "gross weight," "net weight," "net-net weight," "legal weight," "legal net weight," and "plain legal weight." Yet frequently tariff rates are assessed on one or more of these bases. Take Argentina for example. Duties are assessed on a legal weight basis that assumes a certain percentage of inner packing. If the goods are sent without this packing, an additional 10 per cent is added to the net weight of the goods to offset the loss in revenue. If the shipper fails to note the lack of inner wrapping on his documents, his goods are subject to an additional 10 per cent. The Swiss tariff uses gross weight or net weight plus a specified tare percentage of the net weight, whichever is higher. In some instances such as soap, it has been found to be cheaper to ship the soap and the cartons in which the soap is to be sold separately.[8]

Conventional numbers do not always mean what they seem to indicate in international trade. In the British lumber trade, a "standard hundred" means 120. In Germany, the trader in needles who quotes the price per 1,000 needles means instead 950. These technical problems do not concern the old-timer in foreign trade. He becomes accustomed to the terms.

5. Differences in Commercial Laws. Commercial laws are made by the lawmakers of a country for their own people, in response to the needs of their economy, and they reflect the commercial development at any given time. It follows that there is a great difference between the laws of the United States and other countries. A country without installment buying is not likely to have laws on that subject. A country with an English common law base is not going to have the same type of law as one following the Continental system. This has brought about specialization in foreign business law on the part of some lawyers. It has caused our Department of Commerce to collect information which it keeps current on all foreign laws affecting United States exporters. A regular publication is the *Comparative Law Series.*

[8] Eldridge, *op. cit.*, p. 58.

A cause of real anxiety to the United States manufacturers and exporters is their property in trade-marks in foreign countries. The timely advice given by an official of the Department of Commerce brings out the problem:

> Those who export their goods to markets beyond the seas should clearly understand that the rights in this valuable class of industrial property, which they may have acquired in the United States, are not extensive beyond our territorial boundaries. The requirements in the laws of those countries in which they seek to do business must be met if the trade-mark owner is to prevail in any suit for infringement.
>
> Every trade-mark in use in the United States or recorded in its Patent Office may not necessarily belong in other countries to the American user or registered proprietor. In the absence of an affirmative act, such as applying for registration under the laws of foreign countries, the American trade-mark owner will have no protection abroad, especially if the law requires that certain steps be taken before the right inures.
>
> Accordingly, if appropriate steps are not taken to safeguard the property in the trade-mark, others may use and/or register it abroad. We must not expect that other nations will be bound to recognize our common law view of trade-mark proprietorship. Each sovereign country determines for itself the manner in which the property in a trade-mark will come into existence and may be retained.
>
> . . . .
>
> If the exporter in the United States calls to mind that a trade-mark which has not been registered by him may be usurped by another, he may readily account for the attempt of competitors in foreign markets to obtain exclusive privileges in the trade-mark.[9]

Another situation in which the businessman may find himself is the result of the emphasis placed on bookkeeping records in court procedures only when they are in the language of the country. For example, a manufacturer of this country who has a branch plant or office in most of the Latin-American countries may find it necessary to keep his records in Spanish or be subjected to all sorts of inconvenience should he need them for exhibits in court. Still another type of conflict can be illustrated by the practice of "judicial deposit." Assume that an exporter ships goods to an importer in Argentina. The latter refuses to accept them, alleging some shortcoming in weight, quality, date of delivery, and so on. The United States exporter can sue in the Argentine courts to compel the buyer to pay the purchase price, or he may sue on the grounds that the contract has not been fulfilled and ask for damages. But in either case, the exporter cannot dispose of the goods while they are the subject of the dispute. He must make a judicial deposit of the goods in a public warehouse, safely guarded from theft and ordinary damage. Seemingly this holds true for

[9] *Foreign Commerce Weekly*, November 16, 1940, p. 295.

perishable goods, too. Add to this the very slow procedure of courts, and you have a situation that must end only in a severe loss to the exporter.

It is not always easy, however, to determine which law is to be used or which courts take jurisdiction. Professor De Haas states this complicated problem and the theories underlying it very concisely:

When two citizens of a country, while in that country, enter into an agreement that is to be discharged in the same country, their relations are obviously subject to the laws of that country. As soon as one of the parties to the contract becomes a resident of another country, the matter is not so simple and the question is raised: "Under which law are they operating?"

Suppose a court is called upon to settle a dispute arising out of a contract entered into in a foreign country. The first question is whether this agreement is a contract in the legal sense of the word. Suppose that one of the contracting parties is a citizen of the country in which the court is located.

In England, Holland, and France such a question will be decided on the basis that the law of the place where the contract is made decides the validity of the contract. In other countries, however, the attitude to be assumed toward foreign law in such cases is far from clearly prescribed, and in Germany that court may be ruled in its action either by the law of the country where the contract was made or by the law that governs the contents of the contract itself.

Some jurists take the position that in interpreting the contents of contracts made abroad the court should apply exclusively the principles and dictates of its own law.

Another school contends that the nationality of the parties to the contract should play an important part in determining the law that shall be applicable. They reason further that, since the creditor is most dependent upon the fulfillment of the conditions of the contract, it must be the law of the country to which the creditor belongs that rules. This procedure will, generally speaking, make the law of the country where the appeal to the courts is made the ruling law, since the creditor in most cases will be the one to start legal proceedings.

But this theory is by no means generally accepted, for it is held by others that, where the law under which the contract is entered into determines its validity, that law should also rule with respect to the contents. This law will generally be the law of the land of the debtor.

In opposition to this view it is said that the contract may have been made in a given country by pure accident, as would be the case if two foreigners met in a third country while on a pleasure trip and concluded a contract. It is also advanced that, if the law of the place where the contract is made is to be the law under which its obligations are to be interpreted, individuals can then set themselves up as choosing which law shall apply; they may thus select for each contract that law that is most favorable for their purposes, irrespective of their residence or nationality, and also irrespective of the conditions and laws that will surround the fulfilling of the conditions of the contract.

Another group holds that the intention or wish of the contracting parties

must determine the law that shall apply. This point of view is often accepted in cases where both parties are of the same nationality but have made a contract in a foreign country. It is then usually held that, in the absence of any specific statement to the contrary, their intention was to make the contract subject to their own national law.

Most countries recognize in their laws the legal right of contracting parties to indicate in their contracts the law under which disputes arising out of the agreement are to be judged. France, Belgium, Holland, Austria, Italy, Japan, and China are but a few examples of countries that recognize this right.

Another group of jurists holds that the law of the place where the contract is to be discharged should be the ruling law. This seems logical to them since the contract was made with the clear aim in view to have its conditions fulfilled in that place, and they hold that therefore the application of the law of that place was the implied wish of the parties to the agreement.

This point of view is frequently expressed in the codes of law. Brazil, Greece, and Germany have given expression to this theory in their civil codes, although not always in imperative form. This view seems to become more and more generally accepted.

It is therefore clear that there is no uniformity of opinion nor uniformity of legislation regarding these very important questions. There is undoubtedly a great need for a clearer and more uniform answer to these questions but, in view of the widely differing opinions of the jurists themselves, it is doubtful whether we may hope for some international agreement upon these matters. It may be said that attempts are being made to come to some agreement, but thus far the results have not been encouraging. The solution will probably be found more readily if the attempt to find an all-inclusive and simple answer were abandoned and if each type of contract or legal relation were separately considered. It would seem that a solution applicable in one case would not necessarily be the right answer in some widely different situation.[10]

As the result of these conditions, De Haas and other authorities advise the use of courts only as a last resort. For many years there has been the growing emphasis on arbitration as a substitute. Many contracts now contain the stipulation that in the event of a dispute, the matter should be decided by arbitration. It is usually not difficult to find qualified arbitrators among the membership of the various foreign trade groups and Chambers of Commerce.

6. Differences in Documentation. In a sense, differences in the requirements of documents associated with exports from one country to another are likewise part of the differences in commercial laws. But the emphasis on proper documentation goes beyond commercial law and constitutes a part of control exercised by a nation growing out of broader commercial policies. It is not so much the nature of the documents as it

---

[10] De Haas, J. Anton, *The Practice of Foreign Trade* (New York: McGraw-Hill Book Co., Inc., 1935), pp. 371–73.

is their diversity. No two nations require exactly the same information in the same form or in the same amount. Among the export documents required may be mentioned commercial invoices, packing lists, exporter's declarations, bills of lading, marine insurance policies and certificates, drafts, visaed consular invoices, sanitary certificates, and certificates of origin. The penalties for omission are sometimes severe and frequently take the form of an extra tariff imposition.

7. Commercial Policies Intended to Promote the Interests of the Country's Own Nationals. The commercial policies intended to promote the interests of a country's own nationals may be listed under two headings:

1. Commercial policies that control imports and "protect" the domestic market
2. Commercial policies that facilitate exports into the foreign market by attempting to "offset" the difficulties of the foreign market

In considering the list, let us remember that the exports of one country make up the imports of another and that laws dealing with one likewise deal with the other; that herein lies the conflict of international economic relations.

1. Commercial policies that control imports and "protect" the domestic market
   - *a*) Tariffs
     - (1) Prohibitive
     - (2) Protective
     - (3) Revenue
     - (4) Preferential
     - (5) Countervailing
     - (6) Antidumping
   - *b*) Import licenses
   - *c*) Import quotas
   - *d*) Quarantine and sanitary regulations
   - *e*) Exchange restrictions
   - *f*) Clearing agreements
   - *g*) Buy-at-home movements
   - *h*) Boycotts
   - *i*) Marks of origin
   - *j*) Regulations dealing with weights, measures, etc.
   - *k*) Confining business to nationals
   - *l*) Public contracts requiring use of domestic products
   - *m*) Milling and mixing restrictions
   - *n*) Confining coastal trade to vessels of one's own nationals
   - *o*) Government monopolies of various products
   - *p*) Documentation and customs fees

- *q*) Domestic commercial laws which favor domestic traders
- *r*) Government publications
- *s*) The work of the tariff commission in investigating imports
- *t*) The work of other governmental agencies
- *u*) Participation in international organizations
- *v*) Commercial treaties and agreements

2. Commercial policies that facilitate exports into the foreign market by
   - *a*) Attempting to "offset" the difficulties of the foreign market
     - (1) Laws against or lack of export tariffs
     - (2) Government Services
       - (i) Consular service and State Department activity
       - (ii) Valuable Commerce Department publications on trade opportunities, credit standing of foreign buyers, tariff changes, commercial laws, packing and shipping problems, travel conditions abroad, etc.
   - *b*) Drawbacks, free ports, free zones
   - *c*) Improvement of port facilities
   - *d*) Export-Import Bank and similar institutions and activities
   - *e*) Export credit guarantees
   - *f*) International marketing agreements
   - *g*) Special railroad rates on goods intended for export
   - *h*) Subsidies to production, shipbuilding, shipping, fisheries; bounties
   - *i*) Cartels and export associations
   - *j*) Participation in numerous international organizations
   - *k*) Commercial treaties and agreements

The Possibilities of Solving the Problems Growing Out of Sovereignty. So long as the concept of sovereignty exists, the problems of international trade growing out of it will likewise persist. But every treaty of commerce and friendship, every reciprocal trade agreement, every international convention, every international organization, and every international conference (even when not immediately productive of results) tends to modify sovereignty. But it should not be thought that modifying sovereignty is a loss of prestige because such modification is always on a *quid pro quo* basis, that is, nothing is given up except in return for some other gain. Customs union, standardization of commercial forms, understandings about weights and measures, agreements on foreign exchange—just to mention a few types of agreements—will tend to ease the lot of the trader. Who knows but that gradually and without fanfare, international trade will become the true force in the world making for peace just as in the past it has been a vital contributor to war?

SUMMARY

Governments have long controlled international trade as a tool for nation building. But another reason for government interest has been the

paternalistic desire to aid and protect those whose business interests extend beyond the territorial jurisdiction of the government into foreign lands. The problems facing the foreign trader grow out of distance and sovereignty. Those growing out of distance include differences in the nature of customers, markets, business methods, and problems connected with packing and shipping.

The problems growing out of sovereignty include differences in national standards, commercial laws, documentation, and the promotional and restrictive policies of other governments.

QUESTIONS FOR DISCUSSION

1. What problems arising from distance do you think can be overcome? Explain why and how.
2. What problems arising from sovereignty do you think can be overcome? Explain why and how.
3. What are the more important differences in business methods used by our businessmen and those abroad?
4. Would standardizing weights and measures help world trade? Explain why or why not.
5. Would the adoption of a single monetary system by the world help or hinder world trade? Consider all angles.
6. Would the adoption of a single system of commercial law remove the present difficulties faced by the foreign trader? Why or why not?

Chapter XXVIII

TRADE CONTROLS AND RESTRICTIONS OTHER THAN THE TARIFF

Introduction. The tariff on imports and exports, as well as other forms of taxation, has not been the only means of controlling, guiding, or otherwise restricting trade between nations. The reader will recall the numerous mercantilist devices such as licenses, prohibitions, embargoes, quality standards, monopolies, the institution of the staples, treatment of foreign merchants, payment controls and other monetary legislation, bounties, premiums, subsidies, and exemption from taxes. In fact, the tariff did not emerge as the chief instrument of commercial policy until the mercantilist period declined.

After 1789 the tariff on imports is met with more and more, while the tariff on exports and the other devices noted above are met with less and less. They did not disappear, however, and it is probably a true generalization to say that they can be found in some form from the earliest days down to the present. It is a fact, nevertheless, that their use was confined to temporary needs of individual nations and did not loom as the active policy of most nations simultaneously.

World War I and the Reimposition of Controls. The first World War and the postwar period again proved to be years of militant nationalism, and it is not surprising to find that practically all of these controls were re-employed. The tariff, together with treaties of the most-favored-nation variety, had proved adequate during periods of comparative peace and business stability but did not lend itself to the sudden emergencies that punctuated world existence from 1914 on—the World War, new nations, the struggling gold standard and exchange depreciation, the unprecedented "prosperity" of the twenties, the emergence of some form of communism as the economic system of a country that covers one-seventh of the earth, and so on. Treaties, moreover, had dulled the tariff as an instrument against a particular country, whereas these other devices were quickly applied and, if conditions warranted, quickly removed. The tariff, moreover, was better as an instrument of revenue and industry building, whereas, since 1914 many governments were compelled to be interested in other goals.

Until the beginning of 1930, however, the more sanguine observer of world affairs could have seen some evidence that their use was to prove ephemeral. This was especially true after 1925 when conditions in Europe

reached a stage that could be called a postwar norm; and in 1927, when France and Germany signed their first postwar commercial treaty, the eyes of Europe looked toward peace. World currency conditions showed improvement, and capital was forthcoming for the countries needing it. These hopes were shattered by the world-wide business depression of the decade of the thirties.

The Decade of the Thirties and Trade Restrictions. This period witnessed the use of trade restrictions more universally and with more intensity than ever before. They did not displace the tariff but supplemented it so that imports not only were burdened with duties but also were made subject to many strangling devices. The use of trade restrictions, unfortunately, is cumulative. Not only does the imposition of one lead to another, but the use by one country leads to its employment by another country. As a result, the world situation has become more involved, month by month—so much so, that it is actually possible to make a chronological list of restrictive devices from 1930 to the present and find dozens of impositions each month.

Their use has brought the government of each country more and more into the business world. This was evident not only in the totalitarian states which have relied immeasurably on these devices but also in the democratic countries where some semblance of laissez faire has remained. Writing in 1933, Professor Haberler, speaking of just one of the instruments of trade restriction, the import quota, warned that they "lead directly away from Capitalism towards a planned economy."[1] Subsequent events have lent additional force to this statement.

We shall see more of this in the remainder of this chapter wherein we shall consider the principal types of trade controls other than the tariff. Some of them are employed in terms of commodities in general, some against particular items, some against countries in general, and some against particular countries.

A List of Restrictions and Controls. Classification of restrictions and controls is difficult because the controls are not clear-cut. Frequently, they are used in conjunction, one with another. Sometimes one leads imperceptibly to another. They cannot be classified in terms of purpose either because they are used to accomplish different ends. Accordingly, we have not attempted any group classification, although there is some sequence which will show itself in the treatment.

1. Exchange controls
2. Clearing, compensation agreements, and barter agreements
3. Quotas and licenses

---

[1] Haberler, Gottfried von, *The Theory of International Trade* (New York: Macmillan Co., 1937), p. 349.

4. Embargoes and export prohibitions
5. Milling and mixing restrictions
6. Restrictions for the home market
7. Government monopolies
8. Incidental and miscellaneous restrictions

Plan of Treatment. We are not going to make any attempt to consider all of the restrictions in use in each country because there are hundreds of them. It is our purpose rather to offer enough examples of each, together with an explanation of their purpose, to convey an adequate impression of the world picture from the viewpoint of one interested in international commercial policies. Some examples have already appeared in the text. It is important to remember, too, that frequent changes are made by individual governments. Sometimes restrictions are removed for a short time, sometimes their content is changed, and sometimes they are shaped by treaties.[2]

EXCHANGE CONTROL

Exchange Control Defined. Exchange control is the most comprehensive system of government regulation of international transactions. It covers all financial relationships, not only merchandise payments, but all expenditures or receipts of funds from outside of the country. As such, it covers the invisible items of "balance of international payments"—shipping and freight expenditures, tourist expenditures, immigrant remittances, interest and dividend payments, long- and short-term capital movements, and movements of gold and silver. These nonmerchandise transactions are frequently an important part of a country's total financial transactions but are not covered by the tariff. Hence, a country that wishes to control all of its international financial relations finds the answer in exchange control. Stated in another way, it is one thing to place barriers in the way of trade; but it is quite another to say, "We will not permit you to spend money for this or that," or to say as the Italian government said: "You may not travel abroad more than three times a year unless you represent an important firm—in which case you must ask for permission from the Foreign Exchange Institute in Rome." The Yugoslavian government even carried regulations to a point where a foreigner entering the country had to tell the custom officials how much money and what currency he had with him. Only in this way could he export the unexpended balance in that currency. In this he faced a time limit, too.

Exchange control can be quite ruthless when permission must be obtained to bring in domestic or foreign securities purchased and deposited

[2] To follow the changes, the reader should become familiar with *Foreign Commerce Weekly*, published by the Bureau of Foreign and Domestic Commerce of the United States Department of Commerce and other government publications.

abroad prior to a given date, as was required in Greece. When imported, of course, they could not be kept but had to be deposited in a blocked account. In 1938, to take another example, Poland required all residents to report and offer for sale to the Bank of Poland all assets held abroad including real property. Disposal of domestic assets abroad was prohibited except where a special permit was granted. Even jewelry had to be kept within the country.

Exchange control, then, might be viewed as an attempt on the part of nations to remove their Achilles' heel from danger or to make it invulnerable. While a nation can control its internal economy and some of its external economy, it has been at the mercy of world economic forces which have tended to place a value on its currency and have worked to influence its internal price level. This value, when left to the forces of the market would lead to gold importation or exportation, would encourage exporting to that country or importing from that country. Pegging the price in the world market employed by England, for example, from 1916 to 1919 was a milder form of exchange control, but the actual fixing of the amount available and the fixing of its value, helps a country to sever its connection with the price system of the world—at least for a time.

Exchange Control through Stabilization Funds. There are two types of exchange control schemes—one in which the individual merchants are left free to carry on trade while the government or its agency "protects" the price of its currency in the world market, and the other in which foreign exchange is rationed for trade with particular countries or for particular commodities. The first method still has some element of laissez faire in it, while the second enables a country to control the flight of capital, to build up certain raw material supplies, to give direction to industry through generosity or niggardliness. Professor Ohlin makes this effective distinction: The first method deals with the exchange available as the result of past transactions, while the second serves "to take control over the forthcoming supply of foreign exchange and distribute the right to buy it by means of some kind of rationing."

No detailed description of the way in which stabilization funds operate is possible because the element of secrecy is needed to prevent speculation and possible countermoves. As a result, they have been nicknamed "mystery funds." The first was set up in Great Britain in 1932, and the second in the United States in 1934. At first they were associated in part with the banking systems of these countries and exerted an influence on internal credit and prices—an influence holding potential danger. Later on, the gold was prevented from entering the banking system in the form of excess reserves on which credit expansion could be based. This process is known as "sterilization of gold."

On February 28, 1939, the Secretary of the Treasury, Henry Morgen-

thau, revealed the balance sheet of the two-billion-dollar fund for the first time, showing its operations from January 31, 1934, to June 30, 1938. During this time, the Treasury never employed more than $200,000,000 and made a net profit of $9,874,447. Of the total assets of $2,058,716,045, the original fund of $1,800,000,000 remained intact. There were deposits of $100,765,630 in the New York Federal Reserve Bank, gold holdings of $43,701,100, and $48,838,340 worth of Chinese gold held as collateral against $48,487,500 in foreign exchange advanced to the Chinese. The account as of December 31, 1938, showed an increase in net profits to $12,445,297 and total assets of $2,062,232,000. These figures are of interest because they reflect the workings of the fund during the first months of the European crisis. On March 13, 1941, the secretary reported that the fund had earned $22,000,000 and that it was not acquiring currencies of any belligerent nations. It should not be necessary to remark, of course, that the profit earned is purely incidental and not the goal of the fund.

Funds were also set up in Canada, Argentina, the Netherlands, Latvia, Switzerland, France, Czechoslovakia, Rumania, and Colombia between 1935 and 1937, as well as in Belgium. The last-mentioned fund lasted just one year. The United States fund has also assisted China and Argentina with credits of $50,000,000 each. The combined funds represent a huge total, which can be used to dominate foreign exchange. Each fund has the power of depressing rates to benefit export trade or appreciating them for the benefit of import business. Seemingly, those in charge of the British fund have been faced more often with the problem of holding down the value of sterling than with the problem of supporting it because of strong movements of capital from other currencies into pounds.

Control through Exchange Rationing. Exchange rationing spread rapidly beginning in 1931. In that year, it was introduced into Germany, Hungary, Greece, Italy, Czechoslovakia, Yugoslavia, Latvia, Austria, Bulgaria, Estonia, Denmark, Argentina, Bolivia, Brazil, Chile, Colombia, Nicaragua, and Uruguay. In the next year, it spread to Rumania, Costa Rica, Iceland, Japan, Paraguay, and Ecuador. By 1940, of one hundred countries and trading regions, there were only eleven countries, together with the Azores, the Cape Verde Islands, and Puerto Rico, that did not have some form of exchange control. Since that time the list has become even shorter.

The question may arise as to why a country's supply of exchange ever becomes so short as to require rationing. Under a system of trade free from restrictions other than the tariff, it may be argued that every transaction leads to a supply of exchange or a demand for it and that a country that buys as well as sells should not find itself regularly lacking. Similarly, all other international transactions involve a supply of exchange or a demand for it, with the movement of gold as the ultimate arbiter. But when countries restrict their financial relations with each other, when gold is

hoarded, when borrowing countries suddenly find their loans cut off, when export prices decline more than import prices for the goods of a given country, when there is a curtailment of a country's main exports, and when bad internal conditions of a country reflect themselves in the state of exchanges, there will result a scarcity of exchange, which is not self-curing. The tendency, then, is to restrict trade even more and to aggravate the condition further. The "have-not" countries do it for self-protection; and the "have" countries act from the same motive.

TABLE 53

NET INTERNATIONAL MOVEMENT OF FUNDS, 1927–31*

(In Millions of Dollars)

Country	1927		1928		1929		1930		1931	
	Outflow†	Inflow‡	Outflow†	Inflow‡	Outflow†	Inflow‡	Outflow†	Inflow‡	Outflow†	Inflow‡
United States	518	..	1,113	..	229	. .	295	. .	. .	..
United Kingdom	385	.	570	..	574	.	112	.	...	313
France	504	.	237	...		20	..	250	...	787
Germany	.	1,058	...	974	. .	508	.	120	506	.
Poland	...	82	. .	124	.	67	..	1	5	...
Hungary	.	89	.	91	.	38	. .	24	...	39
Australia	.	188	. .	188	.	214	...	15	56	...
India	.	122	. .	67	...	37	...	92	86	...
Argentina	127		..	184	.	4	...	243	27	...

* League of Nations, Balance of Payments, *1931–1932.*
† a net flow of funds to other countries—outflow.
‡ a net flow of funds into the country—inflow

This is essentially what happened in Europe in 1930. The maladjustment of prices was notable in the smaller agricultural countries of Europe because of a falling-off in the world's purchase of their chief exports, whereas the foreign loan market staged a startling reversal with some of the creditor nations themselves becoming borrowers. This is clearly shown in Table 53.

The huge sum of $3,792,000,000, which represented a net outflow by the United States and the United Kingdom to the rest of the world, in four years' time suddenly came to a halt. In 1931, it is to be noted, what appears to be a net outflow for the countries that previously had been on the other side of the fence, is really a sign of weakness. In the case of Germany the condition was brought about by the flight from the mark, while in the case of other countries it means that they were paying back old debts rather than extending new capital loans to a needy world.[8]

[8] *The Recovery Problem in the United States* (Washington: The Brookings Institution, 1936), p. 34. See this work for a good account of the background and course of the depression, especially chaps. i and ii.

The Demand for and the Supply of Exchange. Since exchange control is the outgrowth of a scarcity of the means of making foreign payments, its essence is to bring about a balance between the demand and supply by increasing exports or diminishing imports. The demand for exchange comes from importers and others who must meet their debts to foreign businessmen. It also comes from foreigners who wish to travel or study in that country, to make investments there, to send gifts, and so on. The supply arises out of the action of the government in blocking or holding up the credits due to other countries and in compelling its own exporters to turn over to it at fixed rates all or a substantial part of their claims to foreign money that they receive in the course of international trade. By rationing the supply to the various demands, a country is able to direct virtually all foreign transactions of its citizens.

Forms of Exchange Rationing. Rationing of exchange has assumed several forms. Some countries ration the credit in terms of the commodities to be purchased, some in terms of the uses to which the exchange will be put, and some in terms of the country with which the transaction will be entered. The rationing might be based on a proportion of business carried on in years previous to the imposition of control, in terms of the balance of trade with a particular country, or in terms of different prices charged for the exchange.

In countries that ration their exchange in terms of commodities, the law usually provides that certain commodities are essential and places them on a preferred list. All imports needed by the government itself and its subdivisions are included, together with items that will vary with the countries themselves and the purposes for which the exchange control system has been invoked. Colombia, for example, in a recent law, placed a number of items on the preferred list such as raw cotton, typewriters, prepared foodstuffs for children, medical instruments, cigarette paper, trucks, and tractors. The importation of unessential commodities is not entirely forbidden, but permission must be obtained from the government. One month, exchange may be easy and the request will be granted, and then the next month a less generous policy may be pursued.

Bolivia applies the term "articles of first necessity" to sugar, rice, flour, wheat, livestock, cotton, oil, and lard. Even after these articles are purchased, however, the merchants must file with the Ministry of Industry and Commerce information as to what distribution they made of them and proving that they had charged the prices fixed by the ministry. Costa Rican law divides available exchange into three parts—80 per cent for necessities, 12 per cent for other imports, and 8 per cent for noncommercial purposes. All requests must be presented by importers to the Exchange Control Board. This board must give preference to applications for explosives or inflammable substances. Otherwise, requests are considered in the order of their presentation.

From time to time, announcements are made regarding particular items. For example, an Argentine decree will state that no permits will be issued for machinery for compressing cotton bales or for motors for agricultural machinery during the last nine months of a given year, but that permits will be issued in the first quarter of the next year up to 90 per cent of the imports in the first quarter of the preceding year. Or the announcement might read that permits will be granted in unlimited amounts for crude oil—but subject to quotas set by the Argentine Government Petroleum Company. No one seems vitally concerned with the welfare either of the exporter or the importer.

In Germany, twenty-eight supervising offices were set up, each with jurisdiction over specified commodities or groups. One had to do solely with eggs, one with wood, one with tobacco, another with lampblack, still another with coffee, and so on. Established importers could obtain foreign exchange certificates that constituted an authorization entitling them to transfer abroad foreign exchange necessary to pay for the particular import.[4]

Some exchange is rationed, not in terms of commodities, but in terms of countries. In 1940, Argentina announced that unlimited prior exchange permits for the importation of all classes of merchandise would be granted for imports from Bohemia and Moravia, Bolivia, Brazil, Chile, Denmark, France, Germany, Great Britain, Greece, Italy, the Netherlands, Norway, Paraguay, Spain, and Uruguay. These countries enjoy a preferred position by virtue of various agreements. The United States was not so fortunate. Of 424 exchange control classifications (5,317 tariff items), 100 could not be imported if of United States origin and 106 (over 1,000 tariff items) were restricted by exchange quotas and limitations—a denial of equal treatment on almost half of the import list.[5]

In addition to rationing exchange, a number of countries fix different rates for it in terms of the purpose for which it is to be used. For example, the Argentine government in 1936 fixed three rates of exchange in terms of pesos to the pound sterling—an official buying price of 15 pesos, an official selling price of 17.02 pesos, and a free rate of 18.27 pesos. Wheat and meat are among the items sold at the official rate. The German rates were notorious, although Russian and Italian rates were not far behind. Depending on the use to which the purchasing power was to be put, there were six rates besides the "free" rate—or seven or more if the block or bootleg market rates were included. In addition, there were many types of blocked mark accounts. There were free Reichsmark balances, blocked

[4] Bureau of Foreign and Domestic Commerce, *Restriction and Foreign Exchange Control of Imports into Germany*, Special Circular (Washington, D.C.: U.S. Government Printing Office, September 9, 1937).

[5] *Commerce Reports*, May 18, 1940, pp. 460–61. This publication was superseded by *Foreign Commerce Weekly*.

credit balances, blocked amortization balances, blocked currency balances, old balances, blocked emigrant balances, blocked security balances, special accounts, special administration accounts, conversion balances, payment and compensation agreements, Aski, registered balances, special travelers' accounts, and Reichsmark Trust account balances.[6]

The Aski marks or accounts, for example (a contraction of *Ausläandersonderkonten für Inlandszahlungen*, that is, a special foreign account to be used for making internal payments), was one of the early forms in Germany. The money in these accounts was the proceeds of the sale of foreign goods in Germany and was the property of the foreign exporter. But it could only be used to purchase German goods by some fellow-citizen of the exporter. It was nothing more in essence than the early mercantilist teaching that the proceeds of sales to a country should be spent in that country and taken out in the form of goods. The need for special accounts for this purpose, however, became less as agreements with other nations placed the balancing on an official basis. The blocked system, however, was adopted by many countries.

The extent of the black market or "black bourse" can only be conjectured. In July, 1936, when Rumania granted amnesty to violators of exchange regulations, some 812,000,000 lei of debts had been admittedly paid to creditors in thirteen different countries. The grand total of these bootleg operations in Germany, Russia, Italy, and Latin America must have been enormous in spite of the growing severity of the law. The black market has become an established institution. Its activities were known and its rates were recognized. In countries where there was some freedom in exchange, the rates were called "unofficial." In April, 1940, when the British unofficial rate fell and became the subject of a Parliamentary question, the Chancellor of the Exchequer said in part:

> At the outbreak of war we assumed complete control over the international uses to which the money belonging to our people might be put, but we left the foreigner—by which I mean people living outside the sterling area—free to dispose of his assets, here or elsewhere. We were, of course, under no obligation to convert such foreign holdings into gold or into foreign currencies at the expense of our reserves: every foreign holder was aware that he held sterling and nothing else. But we could have prevented him from taking his money or his securities home. To do this, we should have had to put an embargo upon the use of his money or his securities. We chose not to do so, exposing ourselves no doubt thereby to the risk that some foreign holders would use their freedom in order to dispose of their sterling assets. That has not happened to any substantial extent and it would not be to our advantage to take the action suggested in the direction of blocking these assets.

---

[6] *European Financial Notes*, June 24, 1937, pp. 6–9. This is a one-time publication of the Department of Commerce.

Clearing Agreements. Exchange control carried on in the manner just described is open to the objection that it ignores the interests of the creditors in other countries; and, while the extent to which a government will aid in the collection of debts differs, it seemed logical to care for the situation through bilateral agreements. These agreements soon formed the fragile network on which international trade and financial transactions were supported.

Exchange clearing agreements provided that funds owing to foreign exporters of a given country could be used immediately for the payment of imports to that country through the use of special bank accounts. Exchange compensation agreements usually specified the commodities that were to be exchanged and hence partook more of barter. The distinction between the two, however, has at times disappeared.

The clearing agreement was first proposed at a conference of the representatives of the central banks of central and southeastern countries held under the auspices of the Bank for International Settlements, in Prague, in November, 1931. The conference had as its purpose the discussion of the effects of foreign exchange control. The first clearing agreement was negotiated at that time, and, by 1937, there were 170 of them.[7] That their spread was a matter of necessity rather than preference is indicated by the change in attitude in the meetings of the governors of the banks of Czechoslovakia and Yugoslavia in 1936 and that of the governors of the two latter countries, Greece, and Turkey in 1937. In 1936, they adopted a resolution seeking a restriction of the use of clearing agreements and frowning on their extension. But in the next year they declared "with regret that they are not able to recommend the abolition of exchange restrictions in their countries."

The clearing agreements differ in their complexity. The simplest type may be illustrated by that entered into between Finland and Lithuania in 1938. The importers of each country agreed to pay for their imports from the other country by deposits into clearing accounts kept by the Bank of Finland and the Bank of Lithuania. The receipts were to be kept in terms of pounds sterling. An agreement between France and Argentina read in part:

> As long as the Argentine Republic maintains a system of previous permits for exchange for the purpose of transferring money abroad, the funds originating from the regular exports of Argentine products to France will be applied, after the deduction of a reasonable annual sum, in the following order and at a rate of exchange no less favorable than that granted to any third country: (1) to the payment of the public debt services (national, provincial and municipal)

[7] Dietrich, Ethel B., *World Trade* (New York: Henry Holt & Co., 1939), pp. 137–38.

payable in France; (2) to the payment for French merchandise imported into the Argentine Republic; (3) to the financial services of the commercial enterprises established in Argentina, except for the payment of amortization of capital.

In true mercantilist fashion, each country has been interested in the state of the balance of trade. Table 54, for example, was the state of Italian trade in terms of nineteen countries with which clearing agreements were in force in 1936 and 1937. Italy owed the exporters of Bulgaria, Finland, Greece, Iceland, Lithuania, and Switzerland in December, 1936. Six months later, she owed Estonia, France, Iceland, Yugoslavia, and Switzerland.

TABLE 54

ITALIAN CLEARING ACCOUNT BALANCES, DECEMBER 18, 1936, AND AUGUST 2, 1937*

Country	Date of Agreement	Balance in Lire December 18, 1936		Balance in Lire August 2, 1937	
		Favorable†	Unfavorable†	Favorable†	Unfavorable†
Belgium	Oct. 16, 1936	11,910,145	.	30,553,000	. .
Bulgaria	Oct. 1, 1936		1,988,740	6,840,000	. .
Czechoslovakia	July 15, 1936	21,264,469		15,541,000	
Denmark	Oct. 24, 1936	1,577,383	.	6,053,000	. .
Estonia	Oct. 30, 1936	75,586	. .	....	818,000
Finland	Oct. 1, 1936	. .	645,847	2,417,000	.. .
France	July 15, 1936	36,807,454	.	....	83,409,000
Germany	Oct. 1, 1934	146,971,853	...	52,727,000	.....
Great Britain	Nov. 16, 1936	8,523,230	. . .	22,103,000	.. ..
Greece	Nov. 16, 1936	. ..	1,606,752	12,030,000	..
Iceland	Apr. 1, 1936	....	3,149,920	.....	121,000
Yugoslavia	Oct. 1, 1936	14,706,488	.....	....	7,853,000
Lithuania	Sept. 22, 1936	.....	525,307	105,000	...
Norway	July 15, 1936	709,876	..	.....	.....
Poland	July 15, 1936	6,056,816	.	16,870,000	. .
Spain	Jan. 22, 1936	12,419,218	..	.... .	. .
Sweden	Dec. 1, 1936	9,028,971	.....	1,395,000	.....
Switzerland	Dec. 10, 1935	. . .	34,033,842	. ... .	17,984,000
Turkey	Apr. 4, 1934	1,176,763	.. .	26,213,000	....

* The table is based on European Financial Notes, January 24, 1937 and September 24, 1937.
† "Favorable" means due to Italian exporters; "unfavorable" means to foreign exporters.

Compensation Agreements. Sometimes compensation agreements are simple in form, sometimes they merge with clearing agreements, and sometimes they are more properly called "barter agreements." An example of the first sort is that of an agreement signed in 1938 between the Union of South Africa and Germany. Germany promised to purchase £6,355,000 of South African products during the year:

Wool	£3,700,000
Manganese	450,000
Caracul wool and skins	450,000
Wattle bark and extract	225,000
Whale oil	170,000
Maize and products	150,000
Hides and skins	135,000
Fresh, dried, and canned fruits	130,000
Citrus fruit	125,000
Industrial diamonds	115,000
Vanadium	100,000
Mohair, butter, cotton, wine, tobacco, fish, chrome, tin, platinum, etc.	605,000
Total	£6,355,000

In other cases, no total amount is promised but is contingent upon the amount of exchange available. An example of this arrangement called a "clearing and payments agreement" is afforded by the agreement between Great Britain and Italy in 1936 wherein 46 per cent of the sterling receipts from Italian imports were to be spent for coal exports to Italy and 41 per cent for other commodities. This type of agreement is frequently met with in Latin-American trade.

Barter Agreements. At times, payment in kind is provided. In 1936, Italy accepted commodities, principally coal, in payment of interest and amortization installments owed by Poland. The direct exchange of goods for goods (true barter except for the fact that their money value is in the background) has found frequent use. In 1932, Hungary "swapped" 29,000 pigs for 20,000 wagonloads of wood from Czechoslovakia. She also sent eggs and other products (valued at 1,500,000 crowns) to Czechoslovakia toward tourist services afforded her nationals. Other transactions were 100,000 kronor of porbeagle (a fish) from Norway for fifty-four Fiat automobiles from Italy, four Breda aeroplanes for 150,000 kronor of stockfish, four land bombing planes for 1,200 tons of stockfish. The same countries also agreed to the building of a liner in Italy. It was to be paid for with 40 per cent cash and 60 per cent stockfish. In 1935, Czechoslovakian tourists paid for Italian purchases of coal from that country. This was brought about in this way: Czechoslovakian tourists bought hotel certificates and all other claims to tourist services—even gasoline tickets to be used in Italy. The money was paid into a fund, and its proceeds were used to pay for the coal. In some cases, certain products were placed outside of barter arrangements. For example, Italy placed raw silk in the class of a "compulsory" export material. This means that it could be exported only in exchange for foreign exchange.

In some countries, barter arrangements have been attempted by private capital, as well as by the government. Such a trade was contemplated in 1936 by the Compensation Brokers, Ltd., a London concern seeking to

exchange the products of the British Empire (wool, rubber, hides and skins, jute, ground nuts, vegetable oils, etc.) for German machinery, steel, and dyestuffs.

Advantages and Disadvantages of These Agreements. An evaluation of the clearing, compensation, and barter agreements must be made in terms of conditions rather than ideals. Certainly there is little that can be said for them if normal times and comparative freedom in commercial relations be the starting point. But, on the other hand, if the starting point is well-nigh trade strangulation and rigid control of international payments, then these agreements become, at first, a means of opening up trade relations, developing new markets, and bringing about some certainty in trade relationships both as to the amount and means of payment. They also contribute to the payment of commercial debts, dividends, interest, etc., which otherwise would remain unpaid or unavailable.

Later on, however, these agreements tend to breed more of the same kind and eventually help to take trade altogether out of the realm of individual initiative. Ultimately, then, the agreements become tools for restriction and retaliation. Once frozen into a commercial policy, they tend to remain with us.[8] Countries that seek to remain aloof soon suffer. During six months of 1934, for example, the exports from the United States, Russia, and Peru of mineral oil to Germany fell 20, 27, and 28 per cent respectively as compared with the same period in 1933. But agreement countries found a growing market. Rumanian exports of oil to Germany increased 66 per cent; British exports, 500 per cent; Dutch East Indian exports, 60 per cent; and Dutch and French colonial exports, 36 per cent. The only nonagreement country enjoying an increase was Persia, 28 per cent. But since this oil was the sole source of the Anglo-Persian company in Germany, its continued importation was necessary for that company to remain in business.[9]

On the other hand, countries that enter such agreements find themselves compelled to make more. In 1932, Greece entered six agreements. By 1936, she had twenty-eight of one type or another in force covering the clearings of all or most of her commercial transactions with those countries.

The Position of the United States. The United States has not been a party to any exchange clearing or compensation agreements, although the action of other countries has not left us free of the effects. Countries such as Bulgaria placed our exports on compensation bases, even though there

[8] Bureau of Foreign and Domestic Commerce, *Some Aspects of Exchange Clearing and Compensation Agreements,* Special Circular (Washington, D.C.: U.S. Government Printing Office, April, 1935).

[9] *Ibid.*, p. 11.

was no official action by our government but just a recognition by our exporters that they would be subject to a certain procedure.

Germany, likewise, developed a barter system taking United States cotton, cotton linters, and waste cotton for German exports. But, again, although not officially recognized, it served its purpose. The procedure was this: The United States importer of German goods purchased from a domestic cotton merchant a quantity of cotton equal to the value of the German goods. He then sold the cotton to a licensed firm in Germany which placed the proceeds in a special bank account out of which the German exporter was paid. From the point of view of the United States importer, he had merely used cotton as a medium of exchange. Germany also bartered special machine tools, peat moss, artificial flowers, edible and industrial gelatine, and semiprecious stones for our cotton. But the German authorities took great pains to prevent any suspicion that a subsidy had been paid in Germany, even indirectly. They also feared the effects of any charges of undervaluation on imports brought to the United States.[10] The United States has also given formal recognition to the possibility of exchange control in two commercial treaties, one of a temporary nature laying down reciprocal exchange control guarantees. However, these were more to protect our exporters than to indicate any other action.

We have entered a few barter arrangements in order to reduce our cotton and wheat surplus, but these have always led to regrettable international repercussions. In August, 1931, there was an agreement between the Brazilian government and the Grain Stabilization Corporation and the Bush Terminal Corporation of New York providing for the exchange of 1,225,000 sacks of coffee for 25,000,000 bushels of United States wheat.[11] This transaction netted our Farm Board about 10 cents a bushel, closed the Brazilian market to foreign wheat for eighteen months, brought out a formal protest by Argentina that we had invaded her natural market, and, of course, destroyed the market for cash transactions. Other transactions with Germany and China involved 22,500,000 bushels of wheat in return for government bonds of doubtful goodness—a barter transaction or a gift.

In 1939, our government entered barter transactions with Great Britain in which cotton was given for tin. Similar negotiations with France and Switzerland were undertaken. This awoke the resentment of the thirteen countries, which met in August of that year at the annual meeting of the International Cotton Committee. The delegates took the right to enter into competition with private raw cotton dealers in other nations. Another example of United States barter is found in the agreement signed June 23,

[10] *European Financial Notes,* May 24, 1937, p. 5.

[11] *World Economic Survey,* 1932–33, p. 200.

1939, with Great Britain wherein the latter promised to take 600,000 bales of United States cotton in exchange for rubber produced in her possessions.

QUOTAS AND LICENSES

Quotas Defined. The term "quota" is used in two ways in international trade, and it is necessary to distinguish between them. One is the "tariff" quota and the other the "import" or "guillotine" quota. The former has never been a serious barrier to international trade and has been used sporadically and occasionally for something over a century. Its use by Switzerland between 1931 and 1937 grew out of the belief that it was more in keeping with the most-favored-nation treaties than the import quota.[12] The "tariff quota" may be defined as a fixed amount which may be imported at less than the regular duty during a particular period. A number of instances of the tariff quota may be found in our reciprocal trade agreements. In the Canadian agreement we admit 100,000 head of cattle (weighing 200 pounds or less) per year at a reduced rate, but any in excess of that number, pay a higher duty. Those weighing 700 pounds or more pay 3 cents per pound, but 60,000 head per quarter or 225,000 per year are admitted at half that rate. Whole milk, fresh or sour, coming from Canada pays 3¼ cents a gallon, but any amount in excess of 3,000,000 gallons pays 6½ cents per gallon. Grapefruit has been limited in terms of a season, August 1 to September 30; lima beans from December 1 to the following May 31 in any year. Other products include Irish potatoes, tomatoes, peppers, eggplant, squash, celery, and so on—most of which are covered in the agreement with Cuba.

The Import Quota. The "import quota" is the limitation, usually by the executive authority in fulfillment of a general law, of the amount or value of a product to be admitted to the country. The quota may be in terms of countries—three hundred automobiles from each producing country in a given year, using an Austrian law as an example[13]—or it may be global for which the total is fixed but not in terms of any one or more countries. As Heuser points out, the global quota brings about an unintentional discrimination against distant as opposed to neighboring producers and against small as opposed to large importers. It also adds an element of uncertainty to trade since importers rush to buy before the quota (usually unannounced) is exhausted, while exporters rush to sell before the country's quota is filled.[14]

---

[12] Heuser, Heinrich, *Control of International Trade* (Philadelphia: P. Blakiston's Son & Co., Inc., 1939), pp. 77–79.

[13] Jones, Joseph M., Jr., *Tariff Retaliation* (Philadelphia: University of Pennsylvania Press, 1934), p. 283.

[14] Heuser, *op. cit.*, pp. 81–84.

The Origin of Quotas. Referring to the origin of these quotas and world reaction to them, one writer says:

> Excepting the Hawley-Smoot Tariff itself, the French policy of . . . . quotas, conceived during the first half of the year 1931 and applied with constantly increasing vigor during the year following July 1931, has occasioned more caustic attacks from the nations of the world, and particularly from the United States, and more patriotic defense from the French than any other single policy followed by any country during the depression period. It has been decried by a substantial French element as well as by foreigners as a return to the most deplorable of war-time measures in restraint of trade; it has been damned as a violation of the recommendations of the International Chamber of Commerce and the World Economic Conference of Geneva; it has been berated as a successful "torpedo" to commercial treaties and the most-favored-nation clause; yet it has continued to be applied with the method and the precision of a steamroller, with equally detrimental results to French trade and that of foreign nations. It has resulted in retaliatory measures by some nations, in the adoption of the practice by others, in the awkward acquiescence of yet other most-favored-nations; and the general results have been the tightening of the restrictions to international trade throughout the world.[15]

Mr. Jones, however, sees "no just grounds for particular condemnation of France for the method employed for the 'protection' of her market." It was effective, admittedly, and, "when nations are seized by a wave of economic nationalism in times of falling prices and declining trade, the means employed to restrict trade are in a large sense immaterial; the important fact is that the various nations with sovereign powers *will* to restrict trade."[16]

The Quota versus the Tariff. Import quotas have been used for reprisal purposes, for bargaining, for controlling the type of import, for protecting the supply of foreign exchange, and for favoring certain industries. In many respects these goals are the same as those of a high tariff, but the one is not a substitute for the other. Professor Haberler makes this distinction clear:

> Each quota has a similar effect upon the amount imported to a duty of a given height, in the sense that under given conditions it is always possible to find a rate of duty which will curtail imports by just as much as any given quota. But a duty, so long as it is not prohibitive, does not sever all connection with the world market; it does not prevent the amount imported from varying in response to changed conditions and needs. A quota, on the other hand, cuts all links between the home price and the price on the world market.
>
> The quota system, in any form, raises problems which tariffs alone do not raise. Under tariffs the market-forces of supply and demand determine who

[15] Jones, *op. cit.*, chap. v, pp. 139–75.
[16] *Ibid.*, p. 140.

shall import, and how much. Anybody may import as much as he pleases, but, of course, he must pay the duty, just as he pays the cost of transport. But with the quota a new principle of selection is introduced which is divorced from the play of the market. The fixing of import quotas, like the fixing of maximum prices, is an interference with the price-mechanism which is *alien to the price system*.[17]

The Use of Quotas. The use of quotas by France was based on a law of 1910 which authorized the government "to undertake immediately in case measures devised by foreign countries are of a nature to impede French commerce, all dispositions appropriate to the circumstances."[18]

Between July 16, 1931, and the end of that year, quotas had been imposed on coal, flax, wines, woods, animals and meats, chemical fertilizers, fish, poultry and eggs, furniture and brooms, natural flowers, ham, milk, chicory and chicory roots, sugar, bananas, and canned fish. By July, 1932, there were quotas on 1,131 items or one-seventh of the total in the French tariff.[19] By 1934, the number had risen to 3,000 items or about half of the tariff list. Rumania likewise announced 120 quota items in November, 1932, but had increased the number to 500 by July, 1933. Quotas thus covered about 80 per cent of her imports.[20]

Italy employed quotas for retaliation purposes against the wines, liquors, perfumes, soaps, automobiles, clothing, etc., of France, and the two engaged in a quota war. France put quotas on meat, sausage, and cheese coming from Italy; and Italy cut the admission of cotton yarn, lace, tool machines, hides, and many other products from France.[21] Switzerland is another country that has employed hundreds of quotas. Latin-American countries and other countries have also made extensive use of this form of restriction.

Bilateral Agreements. The bilateral agreement was once again resorted to as a means of breaking the impasse brought on by an ever growing network of quotas. Many countries worked out agreements undertaking to be more generous in their quotas and conditioning them on reciprocal treatment. France denounced her old commercial treaties in order to provide for this in thirty-four new ones which she negotiated.[22] Latin-American countries, too, have entered numerous agreements with other countries of a similar character.

The License and Certificate. In some countries the quota system was an expansion of the licensing system, while in others the license was the

[17] Haberler, *op. cit.*, pp. 347–48.
[18] Jones, *op. cit.*, p. 144.
[19] *Ibid.*, p. 42.
[20] Condliffe, J. B., *The Reconstruction of World Trade* (New York: W. W. Norton & Co., Inc., 1940), p. 216.
[21] Heuser, *op. cit.*, p. 43.
[22] *Ibid.*, p. 241.

means of applying quotas. When the licensing was left to the exporting country, the document was called a "certificate"; otherwise, it was known as a "license." Licenses frequently contained quality as well as quantity specifications. Their administration has revealed some weaknesses. Not only has the problem of trading in these licenses arisen, but delays and bureaucratic inefficiency have made their appearance.[23]

The Use of Quotas by the United States. In the National Industrial Recovery Act of the New Deal—an act that was declared unconstitutional on May 27, 1935—there was a provision authorizing quotas and licenses.

> Sec. 3. (*e*). On his own motion, or if any labor organization, or any trade or industrial organization, association, or group, which has complied with the provisions of this title, shall make complaint to the President that any article or articles are being imported into the United States in substantial quantities or increasing ratio to domestic production of any competitive article or articles and on such terms or under such conditions as to render ineffective or seriously to endanger the maintenance of any code or agreement under this title, the President may cause an immediate investigation to be made by the United States Tariff Commission, which shall give precedence to investigations under this subsection, and if, after such investigation and such public notice and hearing as he shall specify, the President shall find the existence of such facts, he shall, in order to effectuate the policy of this title, direct that the article or articles concerned shall be permitted entry into the United States only upon such terms and conditions and subject to the payment of such fees and to such limitations in the total quantity which may be imported (in the course of any specified period or periods) as he shall find it necessary to prescribe in order that the entry thereof shall not render or tend to render ineffective any code or agreement made under this title. In order to enforce any limitations imposed on the total quantity of imports, in any specified period or periods, of any article or articles under this subsection, the President may forbid the importation of such article or articles unless the importer shall have first obtained from the Secretary of the Treasury a license pursuant to such regulations as the President may prescribe. Upon information of any action by the President under this subsection the Secretary of the Treasury shall, through the proper officers, permit entry of the article or articles specified only upon such terms and conditions and subject to such fees, to such limitations in the quantity which may be imported, and to such requirements of license, as the President shall have directed. The decision of the President as to facts shall be conclusive. Any condition or limitation of entry under this subsection shall continue in effect until the President shall find and inform the Secretary of the Treasury that the conditions which led to the imposition of such condition or limitation upon entry no longer exists.

The Agricultural Adjustment Act of 1933, as amended in 1935 and 1940, used much the same reasoning, that is, the threat to our recovery

[23] *Ibid.*, p. 98. Here Heuser points out the amusing situation in which a textile firm in Holland sought a license to import stockings and finally received one to import bathtubs.

program of the importation or practically certain importation of competitive goods. It directed the President to order an immediate investigation by the Tariff Commission. Should the findings warrant, "he shall by proclamation impose such fees on, or such limitations on the total quantities" of such articles as he finds necessary. Such fees were not to exceed 50 per cent ad valorem and "shall be treated for the purposes of all provisions of law relating to customs revenue as duties imposed by the Tariff Act of 1930." No limit was to be placed, however, on the importation of a commodity from a country whose exports to us of such commodity had fallen below 50 per cent of the average annual quantity for the period of January 1, 1929, to December 31, 1933.

By virtue of the Inter-American Coffee Agreement, signed by the United States and fourteen coffee-producing countries of Latin America on November 28, 1940, we allocated to each country a quota for the amount of coffee that each might send to us. The purpose was to promote the orderly marketing of coffee and to assure equitable treatment for both producers and consumers. The signatory powers included Brazil, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Peru, Venezuela, and the United States. It went into effect as of October, 1940, for a period of three years. Under its provisions, each producing country promised to limit her shipments to the United States and to markets outside of the United States to an amount equal to the agreed export quotas. Provision was also made to allow overshipments or undershipments in any one year to be adjusted in the following year. The United States, in turn, promised to limit her imports for consumption to the annual quotas of each country and to 355,000 bags annually from other areas. The authority to adjust the quotas both for coffee intended for the United States market and for the world market was vested in an Inter-American Coffee Board composed of delegates from the several countries. The board's power was confined within certain limits. It could not increase or decrease the quotas oftener than once in six months nor make any change in amounts to exceed 50 per cent of the basic quotas during the first year or any time thereafter.

Table 55 shows the basic import coffee quotas for each producing country together with the quantities to be sent to the United States and all other countries. The Inter-American Coffee Board made changes in the basic quotas in May and again in August, 1941, in order to equalize shipments. By October, shipments up to 15 per cent in excess of the quotas were being allowed, chargeable to the quotas for 1942. The reason for the increased demand was the expansion of our armed forces (Selective Service having become law in September, 1940). The ensuing scarcity of coffee made the quotas of little significance. Elsewhere, coffee was being rationed. In Denmark, the Netherlands, Germany, Belgium,

and France, the amounts ranged from 1 ounce to 3½ ounces per person per week, while in Italy it was limited to persons in hospitals and in the armed forces. Our own rationing system began in December, 1942 (1 pound per person every five weeks). It must be remembered that the rationing was due to lack of shipping facilities and not to conditions in the American coffee-producing countries. There the supplies piled up—especially in Brazil, which normally produces enough coffee in one year to supply the world for fourteen months. It has been the policy of Brazil regularly to destroy "the excess." Between 1931 and 1942 the number of

TABLE 55

BASIC IMPORT COFFEE QUOTAS IN THE UNITED STATES AND OTHER COUNTRIES UNDER THE INTER-AMERICAN COFFEE AGREEMENT

PRODUCING COUNTRY	DESTINATION (BASIC QUOTAS IN BAGS OF 132 POUNDS)	
	United States	Other Countries
Brazil	9,300,000	7,813,000
Colombia	3,150,000	1,079,000
Costa Rica	200,000	242,000
Cuba	80,000	62,000
Dominican Republic	120,000	138,000
Ecuador	150,000	89,000
El Salvador	600,000	527,000
Guatemala	535,000	312,000
Haiti	275,000	327,000
Honduras	20,000	21,000
Mexico	475,000	239,000
Nicaragua	195,000	114,000
Peru	25,000	43,000
Venezuela	420,000	606,000
Total	15,545,000	11,612,000

bags destroyed came to 76,235,865—or in terms of pounds, 10,073,134,080—a condition for which there is only one possible adjective, "sinful." Rationing in the United States ended in July, 1943.

Quantities imported for the period October, 1942–September, 1943, were as follows: Brazil, 6,803,000 bags; Colombia, 4,810,000; Costa Rica, 303,000; El Salvador, 909,000; Guatamala, 810,000; Haiti, 424,000; Mexico, 492,000; Venezuela, 507,000; other Latin-American producers, 681,000 bags. In terms of basic quotas, the total amount imported into the United States had risen by 194,000 bags. But some very sharp departures from the quotas were to be noted—a decline of 2,497,000 bags from Brazil and an increase of 1,660,000 bags from Colombia, 309,000 from El Salvador, 275,000 from Guatamala, and so on.

The Inter-American Coffee Agreement was renewed twice without modification for one-year periods, October 1943–44, and October 1944–

45. It was renewed in 1945, again for one year; and again in 1946. But Articles I–VIII, inclusive, relating to coffee quotas were suspended with the proviso that under emergency conditions they could be restored upon the motion approved by at least 95 per cent of the total membership of the board. An article in the renewal stated that

> . . . . during the period (October 1945–1946), the Inter-American Coffee Board shall undertake to prepare a thorough analysis of the world coffee situation and shall formulate recommendations for the consideration of the governments now participating in the Agreement and of other governments that might be interested in participating in a revised agreement, regarding the type of international cooperation that appears most likely to contribute to the development of sound, prosperous conditions in international trade in coffee equitable for both producers and consumers.
>
> Such recommendations shall take due account of any general principles of commodity policy embodied in any agreement which may be concluded under the auspices of the United Nations prior to the submission of such recommendations.

A cotton and cotton-waste quota was fixed under the authority of the Agricultural Adjustment Act in 1939 stating the amount and quality of each type of cotton and cotton waste that was to be imported from some thirty producing countries and regions. But the war soon took away any significance to quotas in cotton.

On May 29, 1941, the President imposed quotas on the importation of wheat and wheat flour under this same authority. A total of 800,000 bushels was to be admitted between that date and May 28, 1942, and annually thereafter. Of this amount, 795,000 bushels were to come from Canada, 2,000 from Argentina, 1,000 each from France and Rumania, and 100 each from the United Kingdom, Germany, Syria, the Netherlands, Italy, Mexico, Guatamala, Brazil, Russia, and Belgium. Four million pounds of flour were to be admitted annually—3,815,000 from Canada, 75,000 from the United Kingdom, 24,000 from China, 14,000 from Argentina, 13,000 each from Hungary and Hong Kong, 12,000 from Cuba, 8,000 from Japan, 5,000 from Germany and from Syria, and 1,000 each from fourteen other countries.

Sugar was first placed on a quota basis by the Jones-Costigan Act of 1934 and then by legislation in 1937 which was renewed to the end of 1941, except for the suspension by President Roosevelt in 1939 because of consumer hoarding and sharply rising prices. The domestic growers (beet sugar and cane sugar growers in the United States, Hawaii, Puerto Rico, and the Virgin Islands) were given 55.59 per cent of the market. Cuban growers were to supply 28.6 per cent, the Philippines 15.41 per cent, and other foreign growers less than 1 per cent. On July 19, 1941, the Department of Agriculture announced an increase in the total amount to

be purchased and new quotas were assigned each supplier. From that time on, the demands of war made the quota schemes inoperative since every effort had to be made to get greater quantities. The other device was to cut down the per capita consumption by means of rationing. In 1945, this per capita figure was down to 72 pounds compared with 97 pounds in pre-war years.

Our major interest in discussing the commodities, coffee, cotton, wheat, and sugar, was to point out the use of the quota device as a type of restriction against foreign suppliers in favor of domestic growers and producers. In the case of coffee, of course, the problem was not one of overproduction in the United States where we produce no coffee, but rather the unsettling influence both on this market and the producing countries of sharply changing supplies and prices. Our reference to the war has been made solely to point out that, when conditions of demand change, the need for a quota might well disappear. We should understand, nevertheless, the effect of quotas on the supplying countries in normal times. It happens that the United States is the chief purchaser of the money crops of a number of countries such as sugar, coffee, bananas, cocoa, and so on. Their dependence on us puts us in a position to make or break their prosperity. Quotas should not be used unless the necessity is great. They should never be continued indefinitely and, wherever possible, should be of the type that allows the producing countries to have a voice in their determination.

SUMMARY

The era of militant nationalism following World War I witnessed the widespread use of trade restrictions in addition to the tariff. By the middle twenties a certain degree of stability had returned which suggested that possibly their use would be temporary, but the depression of the thirties made them a part of the commercial policies of all nations.

Exchange controls are the most comprehensive system of government regulation of international transactions. They cover all financial relationships in that they represent restrictions on the use of funds in all relationships external to purely domestic economy. The forms of control vary from government protection of the value of money in terms of other currencies to exchange rationing wherein even the type of travel or commodities for which funds can be spent are controlled.

Exchange clearing agreements provide that funds owing to foreign exporters of a given country can be used immediately for the payments of imports to that country through special accounts.

"Compensation agreements" consist of arrangements for the exchange of specially designated goods by two countries in terms of some set value-figure. Sometimes the value is omitted, and a direct exchange of goods is provided.

A "tariff quota" is a fixed amount of some good that may be imported at less than the regular duty during a particular period of the year, for example, fruit during the winter season.

The "import quota" is the amount or value of a product to be admitted to a country during a period of time. It may be in terms of all other countries (global) or for one or a few countries. Some countries make use of bilateral agreements to break the impasse brought on by an ever-growing network of quotas. The United States frowned upon the use of quotas and other restrictions, although exceptions were made in the case of agricultural products such as coffee, cotton, cotton waste, wheat, and sugar.

QUESTIONS FOR DISCUSSION

1. The use of trade controls and restrictions other than tariff is not new. Comment.
2. What is meant by exchange control? Why is it considered the most comprehensive of all methods of controlling international commercial relations? What are stabilization funds, and what is their purpose? How do stabilization funds operate to control or influence international exchange? In what countries have stabilization funds been established?
3. Why is exchange control through rationing more effective than control through a stabilization fund? What forms has exchange rationing taken? Illustrate by referring to the practices of specific countries. What is meant by the "black market"?
4. What are clearing agreements? How does a typical clearing agreement operate? What difference, if any, exists between a clearing agreement and a compensation agreement? How does a barter agreement differ from each of the foregoing? Can a nation that has a barter system with respect to a particular commodity trade in that commodity with a nation that does not recognize such a system? Explain. Has the United States ever formally entered a barter agreement? Explain.
5. How can you justify clearing, compensation, and barter agreements? In what respects are they disadvantageous?
6. Distinguish between a tariff quota and an import quota. What are the purposes of import quotas? Review briefly the United States experience with respect to import quotas.
7. "The fixing of import quotas . . . . is an interference with the price mechanism which is alien to the price system." Explain carefully, pointing out the difference in this respect between the effect of a protective tariff and the effect of an import quota.

Chapter XXIX

TRADE CONTROLS AND RESTRICTIONS OTHER THAN THE TARIFF—*Continued*

EMBARGOES AND EXPORT RESTRICTIONS

The Use of Embargo and Export Restrictions. In a world wherein innumerable devices are used to keep out imports, that is, some other country's exports, comparatively few countries employ the embargo or other forms of restriction on their own exports. When this is done, there is usually a reason not at all difficult to find. The United States ban on helium exports has arisen out of military necessity and in order to prevent its use in dirigibles by belligerent nations. South Africa restricts the export of ostriches and ostrich eggs; Cuba restricts the export of pineapple seedlings; Egypt and Tunis restrict the export of date palm shoots. In each case, the country wishes to keep others from competing with it. The export of blooded stock has been prohibited for the same reason. For reasons of food conservation or military necessity, many nations have at times forbidden the export of these commodities. Argentina has used this device in recent years in the approved corn law fashion. A number of countries such as Poland, but especially those of Latin America, employ export taxes to restrict exportation, sometimes for the revenue involved and sometimes to safeguard domestic needs.

Absurdity can creep into export prohibitions as well as into import restrictions. Professor Haberler shows this in connection with Rumania's oil policy:

> Protectionism leads to really grotesque situations, when the country producing a raw material prohibits its export in that form and importing countries restrict its import in a more finished form. We have already remarked that Rumania prohibits the export of crude oil. But Austria, which is a natural market for Rumanian oil (coming up the Danube), restricts the import of refined oil in order to protect her refineries. This dilemma has been resolved in the following way. The crude oil is refined and separated into its constituent parts in Rumania; then these parts (benzine, petrol, and so on) are again brought together and imported as so-called "mixed oil" into Austria, where they are again separated in the Austrian refineries. Hungary's demand for Rumanian oil is met in a similar way.[1]

[1] Haberler, Gottfried von, *The Theory of International Trade* (New York: Macmillan Co., 1937), p. 347.

The term "embargo," strictly applied, refers to the prohibition of the departure of ships. It was used in this sense, for example, in our Embargo Act of 1807. It has come to mean more than this. An embargo on gold to preserve the gold supply or to protect credit conditions has frequently been instituted. The United States has made use of this device during the first World War and after April 19, 1933. We have also employed legislation such as the Johnson Act which limits capital transactions with nations in default of the war debts.

During periods of war we have usually employed embargoes on goods. On May 1, 1937, Congress in a joint resolution provided: "Whenever the President shall find that there exists a state of war between, or among, two or more foreign states, the President shall proclaim such fact, and it shall thereafter be unlawful to export, or cause to be exported, arms, ammunition, or implements of war from any place in the United States to any belligerent state named in such proclamation, or to any neutral state for transshipment to, or for the use of, any such belligerent state."

We shall say more of this in the chapter dealing with commercial policies and war. At the same time, mention will be made of neutrality, contraband, and other conditions that restrict commercial intercourse, as well as the export control law of the United States.

The embargo has also been employed as a sort of moral sanction against certain countries. Cutting off the supply of scrap iron and oil to Japan or other vital supplies to belligerents has been resorted to as well as "freezing" the credits of belligerents or near-belligerents. To take care of the latter, the Federal Reserve Bank of New York in August of 1941 was employing three hundred persons in their Foreign Property Control Department. In effect, then, the embargo tends to become a boycott.

In a sense, the Neutrality Act and the blacklisting of Axis firms partake of the nature of an embargo and a boycott. These will be discussed in the chapter dealing with war and commercial policy.

MILLING AND MIXING RESTRICTIONS

Milling and Mixing Restrictions. Milling and mixing restrictions have been employed in a number of European and Latin-American countries. They require the addition of a varying percentage of domestic products with the foreign product, thereby not only assuring the use of the domestic but the curtailment of the foreign. The importation of wheat and other grains has been lessened by the use of this device by France, Germany, Czechoslovakia, Sweden, Italy, Latvia, Finland, the Netherlands, and other countries. In 1929, French law required that flour made in France was to contain a minimum of 97 per cent domestic grain. This proportion was changed frequently. Sometimes it was 90 per cent domestic and 10 per cent foreign, 80 per cent and 20 per cent, 75 per cent and 25 per cent. The German law required no mixing but ordered millers

to grind a certain amount of domestic wheat for each part of foreign wheat that they ground. Here, too, the percentage of domestic wheat varied from 30 to 97 per cent. Czechoslovakia fixed the ratio at 75 per cent domestic wheat for wheat flour and 95 per cent domestic rye for rye flour. Italy fixed the proportion so that the resulting flour was 95 per cent domestic wheat. The Latvian law was phrased in a different way. For each 100 quintals (1 quintal equals 220 pounds) of imported wheat, the miller had to buy 25 quintals of domestic wheat. The purchaser of 100 quintals of foreign flour had to buy 40 quintals of domestic wheat. For each 100 kilos of imported rye, the purchaser had to buy 600 kilos of home-grown rye. Later on, the purchaser of flour had to buy 300 kilos of home-grown wheat and 100 kilos of home-grown barley.

In Argentina in 1940 the importer (other than an oil company engaged in further processing) of coal, coke, Diesel oil, fuel oil, kerosene, gasoline, crude petroleum, and other fuel and petroleum derivatives was compelled to buy a specified amount of domestic corn for fuel from the Argentine Grain Board. The use of alcohol from domestic grains and potatoes is sometimes tied to fuel imports by certain European countries as well. In Brazil in 1940, textiles made of jute had to have at least 10 per cent of domestic fibers mixed in.

On the borderline between a milling-mixing requirement and a licensing system of a barter type are cases such as adduced by Heuser who tells of the Swiss importer of china whose license permitted him to use up to 50 per cent for free imports if he purchased an equal value of Swiss china; of the importer of shoes who had to buy domestically produced zippers; and of the family who got permission to import a tombstone from Italy only on condition that another one would be purchased in Switzerland as well.[2]

RESTRICTIONS FOR THE HOME MARKET

Introduction. In a measure, all trade restrictions are based on protection and encouragement to home industry, but there are some that may be classed together because they seek patronage for home industry in the home market. Among these are marks-of-origin requirements, buy-at-home movements, the boycott, laws requiring public contracts to give preference to home industry, and the narrowing of business to a country's own nationals.

Marks of Origin. A mark of origin such as "Made in Japan," "Made in China," and "Made in the United States" is a sort of negative support that governments give to "buy-at-home" movements. It is, nevertheless, quite effective. It lends itself to a choice of home goods as opposed to

[2] Heuser, Heinrich, *Control of International Trade* (Philadelphia: P. Blakiston's Son & Co., Inc., 1939), p. 106.

imported goods. When popular indignation is directed at Japan or Germany, it is not at all difficult for the buyer in the United States to choose something else. When, sometime back, a banquet speaker in Washington found that the favors, little United States flags, bore stickers "Made in Japan," he was far readier to do something about it than if he had not seen the name of the country of origin. For a time, Germany made use of such marks as "Made in Saxony" which were confusing to the geographic intelligence, and Japan was charged with labeling products "Made in USA" the said "USA" being the name of a Japanese community. Our law forbids regional names, however.

Nations such as Canada and other English-speaking countries have been extremely aggressive in their insistence on marks of origin, especially in recent years. This emphasis on patronizing home industry has been one influence in forcing the establishment of branch factories,[3] expropriating mining properties, requiring a certain domestic ownership in a corporation, and closing markets to foreign insurance companies. Japan, Mexico, Costa Rica, Uruguay, and Chile have already succeeded in this last-mentioned field through one device or another. The emphasis on the home product reaches its climax when marriage to nonnatives is frowned upon. For example, the leading newspaper of Zurich, Switzerland published an editorial on a favorite subject in February, 1940, entitled "Marry Swiss."

International Action. Falsification of origin, aside from being unfair to the consumer, is unfair to the manufacturer or producer whose reputation may be harmed by inferior goods being alleged to be his or by inferior goods being sent from a region famous as the source of high-quality goods. The competitor is simply trading on the good name of a legitimate producer. It has been pointed out, nevertheless, that sometimes the manufacturer of the falsely labeled goods is not to blame. Goods that are shipped in bulk are sometimes labeled by an importer who is aware of special preference for the goods of a certain country. Sometimes he does this in order to cover over the fact that the products come from regions temporarily held in low esteem.[4] The stamp of origin might be eradicated or covered over with a price tag in such cases. There are usually domestic laws to take care of these last-mentioned practices.

The first attempt to handle false indication of origin by international agreement was the Arrangement of Madrid of April 14, 1891. It was revised at Washington in 1911 and at the Hague in 1925.[5] The contracting states of the 1911 agreement were Brazil, Czechoslovakia, France, Great

[3] It is said that this was one factor causing 200 United States manufacturers to establish branches in Canada between 1930 and 1934. For the reasons for the migration of factories to South America, see Phelps, Dudley M., *Migration of Industry to South America* (New York: McGraw-Hill Book Co., Inc., 1936), p. 137 *passim*.

[4] *Commerce Reports*, November 21, 1936, p. 926.

[5] *Commerce Reports*, February 11, 1939, p. 129.

Britain, Portugal, Spain, and Switzerland. The Washington revision had been ratified by Brazil, Cuba, Danzig, France, Great Britain, Germany, Hungary, Eire, New Zealand, Poland, Spain, Sweden, Switzerland, Turkey, and Czechoslovakia, as well as by some of the regions controlled by these countries.

In brief, the contracting powers undertook to seize or prohibit the importation of goods falsely labeled that originated in one of the countries party to the agreement. The convention does not cover goods in transit, nor does it forbid the vendor from indicating his name and address upon goods coming from a country other than that in which the sale takes place. But in this event, clear markings must prevent any misunderstanding as to the true place of origin.

In 1939 our Bureau of Foreign and Domestic Commerce published a valuable and painstaking work called *Foreign Marks of Origin Regulations*[6] in order to spare United States manufacturers and exporters the delays, inconveniences, customs fines, and even refusal of admission connected with marks of origin. It includes not only the countries of the world but also their dependencies. In order to understand the minuteness with which the restrictions have been worked out, let us list some of them, selected at random. They speak well for human ingenuity but are not conducive to foreign commerce.

England required the stamping of every egg shell conspicuously in letters of not less than 2 millimeters. The origin of safety razor blades was to be marked on the envelope rather than on the greased paper covering each blade. Each tire had to bear the name of the country of origin on the wall so as to be visible when fitted to any wheel. Flooring blocks were to be so impressed or incised every nine inches. Bacon and ham with rind were to be identified "by means of branding or stamping durably and conspicuously on the rind in block letters not less than ¾ inch high and not more than ½ inch apart, in two lines of letters joining on the gammon hock to the end of the forehock and to the end of the top collar. . . . so that indication of origin shall appear on all the standard joints or cuts."

Canada allows the name of a large city in lieu of the country in some cases. The mark of origin must appear on every toothbrush handle. Australia expects that the origin of powder puffs be printed on the ribbon attached to the back of the puff.

Denmark orders that the containers of barley groats for retail sale be labeled in letters at least one-tenth as high as the length of the container with the following: *Byggryn fremstillet af underlansk Byg* ("Barley grits prepared from foreign barley"). The origin of imported animals such as horses and cows must be branded on the animals themselves.

---

[6] Washington, D.C.: U.S. Government Printing Office, 1939.

Live fruit trees that go to Finland must be labeled. "On the root end of the trunk of every tree must be painted with red oil paint a vertical mark at least 8 centimeters long and 1 centimeter wide, beginning about 20 centimeters from the root neck upward, and to every tree shall be fastened a label of cloth upon which the mark shall be stamped or printed in letters at least 5 millimeters high."

France demands that imported umbrellas and parasols be marked in colored letters "manifestly apparent" on the stick between the handle and the first spring. Safety razor blades must be marked on each blade. The origin of buttons must appear on the back of each button except where the size, etc. of the button would make it impracticable, in which case the marks appear on cards and containers. Each envelope must be marked on the flap, 1 centimeter from the edge. Norway requires marks on the individual wrapper of each bouillon cube.

The law of Argentina directs that shirts, skirts, wearing apparel, neckties, aprons, sweaters, etc., be marked with a cloth label sewn on each piece or stamped with the country of origin if the mark can be shown in this way. Erasers, pencils, envelopes, and paper products must be marked individually; but confetti, fortunately, need only be marked on the wrapper.

In Cuba the mark of origin needs to appear only on the unit itself. The unit is taken to be "the product which the consumer acquires or purchases." This means that a foreign-made automobile may be satisfactorily labeled just once, but, if any part is sold separately, it must not only be stamped with the country of origin, but must also show the name and address of the manufacturer.

Industrial Property. International conventions protecting industrial property (trade symbols, trade-marks, patent rights, designs, marks of origin, the "right" to patent, unfair competition, slogans, prints, catalogs, advertisements used to identify or advertise goods, etc.) also prevent the false indication of origin when a trade name, etc., is linked with a locality or country. It must be remembered that these rights would not extend beyond one's own country except for the convention. The first convention was signed in 1883 in Paris. It was revised a number of times to care for the growing concept of industrial property. The present convention was signed at London in 1934. In addition, there is also a general Inter-American Convention for Trade Mark and Commercial Protection, signed at Washington in 1929.

Buy-at-Home-Movements. The philosophy of the buy-at-home movement is the philosophy of mercantilism. It is an economic manifestation of patriotism and has played its part not only during the centuries but within each small town and village. Internally it has been a potent factor in anti-chain-store legislation and in the epidemic of interstate trade barriers that is raging in this country. When applied to international

trade, it assumes the form of that old familiar argument that holds so much appeal: When you buy at home, your community or nation not only retains the goods but the money as well. But when you buy from abroad all you have are the goods. The "foreigners" have all the money.

The buy-at-home movement rises and falls in its strength with the rise and fall of extreme nationalism. Psychologically it is potent. In the hands of totalitarian leaders it is an effective bar to importation. We have already mentioned some examples of this philosophy at work. It rarely stands alone but is much more likely to be supplemented by other restrictive devices.

An interesting set of "Ten Commandments" on this subject was circulated in Germany a generation ago:

1. Never lose sight of the interests of your compatriots or of the fatherland.
2. Do not forget that when you buy a foreign product, no matter if it is only a cent's worth, you diminish the fatherland's wealth by so much.
3. Your money should profit only German merchants and workmen.
4. Do not profane German soil, a German house, or a German workshop by using foreign machines and tools.
5. Never allow to be served at your table foreign fruits and meat, thus wronging German growers, and, moreover, compromising your health because foreign meats are not inspected by German sanitary police.
6. Write on German paper with a German pen and dry the ink with German blotters.
7. You should be clothed only with German goods and should wear only German hats.
8. German flour, German fruits, and German beer alone make German strength.
9. If you do not like German malted coffee, drink coffee from the German colonies. If you prefer chocolates and cocoa for the children, have a care that the chocolate and cocoa are of exclusively German production.
10. Do not let foreign boasters divert you from these sage precepts. Be convinced, whatever you may hear, that the best products, which are alone worthy of a German citizen, are German products.[7]

The Boycott. A boycott, in the sense of group unwillingness to buy the goods of another nation, is an old device. It was used by the resourceful founders of this nation in their nonimportation agreements, by the South against the North, and by Gandhi's followers in India. It was used with effect by the Chinese against the Japanese in 1919; and again in 1932 because of Manchuria, it was employed with such success that Japan had to resort to war. It won the endorsement of the League of Nations. It has

[7] Adapted from a circular widely circulated in Germany in 1910. Hamilton, Walton Hale, *Current Economic Problems* (Chicago: University of Chicago Press, 1924), p. 323.

been used in recent years effectively against Italy, Russia, Germany, and Japan. The Swiss people have used it against us, and various Latin-American groups have done likewise. A sensational use was made of it a few years ago when Great Britain decided to employ it against Russia which had imposed prison sentences on two English engineers employed by the Metropolitan-Vickers Company charged with spying. The indignation was fed by the belief that Russia was merely looking for an opportunity to wage an attack on England for the benefit of her populace and that the defendants acted the way they did at the trial because they were hypnotized. Even the staid *London Times* managed this masterpiece: that a partial explanation was to be found in the psychology of the Ogpu chiefs "whose minds become warped through the practice of terrorism, like the minds of drug addicts. . . . they become obsessed with lust to hunt for victims . . . . They cannot live unless they are perpetually tracing 'class enemies,' bullying, browbeating, torturing and shooting, and they are driven by an obsession to seek perverse satisfaction in filling others with fear and horror."

The boycott, however, is a two-edged weapon. It harms the wielder as well as the victim; and its success must, in the final analysis, be determined by which party can stand the most pain for the longest time. When a strong popular opinion advocated the boycott against Japan, there were plenty of women who agreed not to wear silk stockings and not to buy dishes or toys made in Japan. For them, this was the boycott. But there were many other elements involved. Disregarding the fact that millions of Japanese did not know what it was all about, the cessation of silk imports could be expected to have two sets of results—one, the stagnation of United States industries using silk, with unemployment the lot of their employees; and, two, the curtailment of the Japanese consumption of United States goods with the familiar effects on our producers. At the time of the proposed boycott, Japan was buying over 900,000,000 pounds of our cotton, as well as quantities of petroleum, metals, wood pulp, lumber, and unmanufactured tobacco. We are not, of course, questioning the justice of moral indignation but merely pointing out that a boycotter must visualize the whole consequence.

Public Contracts. Most countries have laws directing persons in charge of public contracts to place them with home industry whenever possible. Since government is frequently the largest consumer in a country, the effect of such legislation can be marked.

Confining Business to Nationals. We have already considered the movement among nations to gain control of basic raw materials which had been granted years ago to foreign concessionaires through expropriation and legislation regarding national ownership of subsoil. We have mentioned the nationalization of insurance companies, the attempts to ex-

clude foreigners and even races from commercial activities. For example, the state of El Salvador, as far back as 1936, on the admitted ground of protecting her nationals from foreign competitors, barred Arabians, Turks, Chinese, Persians, Hindus, Egyptians, Armenians, and some others from Salvadoran business even though naturalized. Legislation insisting on the use of native language also contributes to the same end. In fact, the generalization may be permitted that all restrictions against foreign trade tend toward this goal.

Government Monopolies. For reasons sumptuary and fiscal, governments have made use of their sovereign power to monopolize the import or export trade in important commodities. Sometimes this has been carried out through the establishment of a governmental agency, and sometimes it has been relegated to cartels. The French government maintained a tobacco monopoly for many years. The Swiss government sponsors Carbura, an import monopoly dealing in petroleum and oil. Film making is a government monopoly in Russia which is closed to films from this country. Likewise practically all Latin-American countries, with the possible exception of Cuba, maintain such monopolies. Ecuador relies upon income from her monopolies for anywhere from 20 to 30 per cent of her annual revenue—such income usually being earmarked to finance public works. Among the commodities that now are monopolized, or were at one time, we find gasoline, playing cards, firearms, alcohol, ether, perfumes, iodine, crude tobacco, matches, and salt. Argentina has monopolized most of her ports and harbors, and, in common with a number of other countries, her telegraphic system. Bolivia's monopolies cover petroleum and matches. Those of Colombia include railroads, communications, salt, rubber, platinum, emeralds, and alcoholic beverages. The Costa Rican government monopolizes salt, alcohol, and liquor; that of Venezuela controls matches, salt, and most of the coal. Paraguay monopolizes quebracho; Peru, guano, tobacco, salt, industrial alcohol, and matches. Uruguay owns most of the hotels and all types of insurance, as well as refined oil. Puerto Rico has a monopoly on sugar.

The totalitarian governments have made all import and export activities the subject of complete government control, and these tactics persist even though the Axis powers have been defeated. Estonia has monopolized imports; and Finland, exports. Canada's control of wheat may be called a monopoly by government.

The control over exports arises, in many cases, from the fact that the country or group of countries possess a large supply of a much-needed raw material. Such countries then attempt restrictions through conventions, governmental agencies, or controlled companies, or they relegate the work to cartels. We shall examine the cartel more fully in another chapter, but we should like to point out here that among the products so treated are agricultural products such as raw silk, wheat, tea, coffee, cocoa, sugar,

tobacco, rubber, opium, long staple cotton, sisal, and jute; and forest products such as wood pulp, certain lumber, camphor, potash, cinchona bark. Cartels also deal in the metals and minerals such as copper, petroleum, zinc, lead, iron and steel, nitrates, iodine, tin, mercury, phosphate rock, sulphur, nickel, salt, and coke derived from coal. The League of Nations had given consideration to the problems involved in such control. Its Committee on Raw Materials issued a report in 1937 in which it condemned prohibitions and restrictions on the export of these raw materials especially when they are used for the purpose of exercising pressure on other countries or when they are imposed to bolster up weak domestic industries. The plea was made that such devices should be given up and that the nations of the world should enter formal agreements not to use them in the future.

Group Control. When states have seen fit to form temporary, or more or less permanent, conventions with other states producing similar raw products, the restrictions presumably benefit all of the producers involved. The basic purpose of group control is to stabilize production and to prevent ruinous price changes. This, of course, is frequently to the consumer's interest; but that the consumer may at times suffer from group control must also be taken into consideration. In order to get a better picture of group control, let us consider next some of the plans that have been put into effect.

Control of Rubber. Rubber has been one of the world's most important raw materials for a long time. Its production is limited to certain areas of the world so that any restrictive program is bound to be felt. Rubber prices have fluctuated violently from 1880 on. Beginning in that year, prices in the neighborhood of $1.00 per pound were recorded for three decades. In 1910 the demand for raw rubber for bicycle and automobile tires forced rubber prices as high as $3.25 a pound in the New York market. Rubber plantation shares became highly speculative, especially when a Belgian rubber company declared a dividend of 520 per cent in 1910. In the rush to get a share of the profits, regions outside of Brazil were opened up—in Africa, in Ceylon, and elsewhere.

In order to protect the production of rubber and continue to collect the export duties, the Brazilian government had extended all sorts of aid to rubber interests. A rubber syndicate was organized in 1909 to keep prices under control. But new sources of supply, price speculation, the formal protests of British and United States interests through their governments brought the syndicate to an end. During the first World War, our government, through the War Trade Board, issued regulations regarding the importation of rubber. All imported rubber was made subject to import licenses and was consigned to the Rubber Association of America, Inc. All domestic manufacturers had to buy from this association and give assurance that no rubber would be sent to neutral countries that might

turn it over to enemy nations. Price control and the supervision of the use of rubber for necessary purposes also were a part of war legislation.

After the war, rubber prices fell to 20 cents per pound in 1920 and to 15 cents in 1921. Brazilian interests sought to find new uses for rubber. The growers in other lands first tried voluntary restriction of output (November 1, 1920–January 1, 1922) and then appealed to their governments for aid. To aid her colonists in British Malaya and elsewhere, the English government put the plan of Sir James Stevenson into effect in 1922. Under this plan, each producer was given a quota on the basis of past output and a sliding scale of export taxes were imposed. The plan did restrict the export of rubber and kept the price from falling. In fact, speculation pushed the price to $1.00 per pound in 1925 from 18 cents in 1924 and 30 cents in 1923. One inherent weakness in the plan was the refusal of the Dutch East Indies government to co-operate. More and more rubber trees were planted, and the Stevenson plan was given up in 1928. By 1932, the price of rubber in New York was less than 3 cents per pound! Great consternation struck the rubber producing sections of the world.

In 1934 an international agreement signed by the governments of rubber producing regions became effective to regulate the production and sale of that product. It was to expire December 1, 1938, but was renewed so as to be effective until December 31, 1943. The regions participating represent almost an absolute monopoly of all the rubber production—Malaya, Ceylon, the Dutch East Indies, India, Burma, Brunei, State of North Borneo, Sarawak, Thailand (Siam), and French Indo-China. As stated in the preamble of the revised agreement, its purpose is "to regulate the production and export of rubber in and from producing countries with the object of keeping world stocks at a normal figure and adjusting in an orderly manner supply to demand, while at the same time making available all the rubber that may be required and maintaining a fair and equitable price level which will be reasonably remunerative to efficient producers."

The administration of the plan was vested in the International Rubber Regulation Committee appointed by the participating governments—four delegates for Malaya, four for the Dutch East Indies, two for Ceylon, two for French Indo-China, and one each for the other regions—Burma, British North Borneo, Sarawak, and Thailand (Siam). Each member had one vote for every complete 1,000 long tons of basic quota. The voting members of at least four delegations constituted a quorum. The agreement also called for an advisory committe to be nominated by the great rubber manufacturers of Europe and the United States. The basic quotas which had been planned for the years 1940–43 are shown in Table 56.[8]

[8] The foregoing account is based on Bureau of Foreign and Domestic Commerce, *Rubber: History, Production, and Manufacture*, Trade Promotion Series, No. 209 (Washington, D.C.: U.S. Government Printing Office, 1940).

Article XIII of the agreement was an attempt to prevent the development of rubber cultivation elsewhere. It provided: "The exportation from the territory or group of territories of any leaves, flowers, seeds, buds, twigs, branches, roots, or any living portion of the rubber plant that may be used to propagate it shall be prohibited under penalties that shall be effectively deterrent."

World War II changed this picture. No longer was the question one of excess supply. The principal producing regions had been lost to the United Nations. Rubber was severely rationed. Scrap and reconditioned rubber were used. The use of synthetic rubber and rubber substitutes helped to some degree. The United States turned toward the American republics for a supply. Agreements were signed with fifteen of the nations

TABLE 56

Basic Quotas of International Rubber Regulation Agreement *

(Long Tons)

Country	1940	1941	1942	1943
Malaya	642,500	648,000	651,000	651,000
Dutch East Indies	640,000	645,500	650,000	651,000
Ceylon	107,500	109,000	109,500	110,000
India	17,750	17,750	17,750	17,750
Burma	13,750	13,750	13,750	13,750
British North Borneo	21,000	21,000	21,000	21,000
Sarawak	43,750	44,000	44,000	44,000
Thailand	55,300	55,700	56,000	60,000

* Bureau of Foreign and Domestic Commerce, *Rubber: History, Production, and Manufacture*, Trade Promotion Series No. 209 (Washington, D.C.: U S. Government Printing Office, 1940).

in accordance with which we promised to purchase the exportable surplus produced by each and pledged co-operation in expanding rubber production in this hemisphere. Our agency was the Rubber Development Corporation which supplied materials and equipment needed for expediting rubber production, even including airplanes and river boats. The Office of Inter-American Affairs through its Health, Sanitation, and Food Divisions helped to guard the health of rubber collectors and furnished them with locally grown food supplies. In 1941 we obtained 10,800 long tons from this source. In 1942 the amount had grown to 14,300. The figures for 1943 were 26,000; for 1944, 32,500; and for the first half of 1945, 19,000 long tons. The rubber stock pile was administered for the United Nations by the Rubber Reserve Corporation in Washington from 1940 to 1945. The International Rubber Regulating Committee was dissolved officially on May 1, 1944. During 1946 there was some resumption of natural rubber exports from British Malaya, Borneo, and the Dutch East Indies. There was little international control attempted during the year. By January 1,

1947, all such control ceased. The rubber market was free. Prices began a downward movement and, by July, 1947, had reached the lowest point since 1939. An international conference scheduled for Paris was expected to propose some form of international control through group action—probably not unlike that of the pre-war years.

Controls over Tea, Sugar, and Tin. Overproduction of tea in the decade of the twenties led to two attempts to control output. The first was voluntary but proved unsuccessful in British India, Ceylon, and the Dutch East Indies. The second agreement was international in character with the governments of the regions producing over 80 per cent of tea exports setting up an International Tea Committee with headquarters in London. Effective from April 1, 1933, the plan was to expire in 1938. Each country was given a quota which it was to subdivide among its producers. Collectively, the governments promised that there would be no increase in tea-growing areas and only limited plantings not to exceed one-half of 1 per cent of the planted portion of each country. The first year, exports were to be cut 15 per cent, but difficulties were experienced when traders bought from China and Japan which are not parties to the agreement. Although these countries produce large quantities (China alone producing almost half of the world's tea), they do not ordinarily export it. Hence, their failure to join the pact did not seem serious at first.

In 1937 the representatives of twenty-two of the sugar-exporting and -importing countries met at the invitation of the League of Nations to discuss the international sugar situation. Out of their deliberations grew an international agreement, (1937–42), signed by all except Japan, fixing total sugar sales. The International Sugar Council was provided, consisting of representatives of the countries involved, together with an executive committee made up of three representatives each for the sugar-importing countries, the cane-growing countries, and the beet-sugar-growing countries. Renewed each year, it was to expire on August 31, 1947.

The production and export of tin has likewise been the subject of international deliberation. The agreement that expired in 1943 was based on a convention signed by the Belgian Congo, Bolivia, French Indo-China, Malaya, the Dutch East Indies, Nigeria, and Thailand. Control was vested in the International Tin Committee. The United Kingdom and the United States had nonvoting members on the committee in their capacity as consumers of the product.[9] The standard tonnages in long tons have been fixed as follows: Belgian Congo, 13,200; Bolivia, 46,490; French Indo-China, 3,000; Malaya, 71,940; Dutch East Indies, 36,330; Nigeria, 10,890;

[9] For an account of these agreements, see Dietrich, Ethel B., *World Trade* (New York: Henry Holt & Co., 1939). The tea industry is treated in the *Index*, a publication of the Svenska Handelsbanken, Sweden, Vol. XI, No. 128.

and Thailand, 18,000. The actual quotas, however, are fixed quarterly in order to keep the product at a price of £200 per ton.[10]

INCIDENTAL AND MISCELLANEOUS RESTRICTIONS

Introduction. There are a great many restrictions that may be grouped under the general title, "Incidental and Miscellaneous Restrictions." They include consular and administrative requirements with attendant fees, customs procedure, sanitary and quarantine legislation, hallmark and quality standards, labeling and packaging provisions, sumptuary law, commercial laws, and shipping regulations. Collectively, they form a serious restrictive force in international transactions.

Some Examples. A country may, for example, have a sumptuary law prohibiting the manufacture and sale of intoxicating liquor. Such a law cannot be construed as directed against international trade, but its effect is to forbid the importation of a product formerly shipped to it. A law in one of our states requiring that milk from outside its borders will be admitted only if the farms are inspected by state inspectors would keep Canadian milk out just as effectively as a ban by our federal government. A general quarantine against fruit and other products of agriculture because of the San Jose scale, corn borer, Mediterranean fruit fly, Japanese beetle, chinch bug, boll weevil, and so on will keep foreign supplies out. France kept United States potatoes out for thirty-five years because of a law against potato bugs. Phylloxera, which attacks grape vines, has even been honored by being the subject of an international treaty, dating from 1882 and signed by Austria, Belgium, France, Germany, Hungary, Italy, Luxemburg, the Netherlands, Portugal, Spain, and Switzerland. Legislation against the foot-and-mouth disease will ban beef. Pure food and drug laws will keep out all sorts of canned goods, medicines, and other merchandise.

Informative labeling, the use of the language of the country, insistence on the metric system on labels, and trade-mark complications must also be kept in mind by the manufacturer and exporter. Differences between the commercial laws of the exporting and importing country covering offers and acceptances, sales, credits, collections, advertising, installment sales, agency, and foreign corporations might prove barriers to commerce. Likewise, laws relating to traveling salesmen and commercial travelers and license requirements and taxes imposed on them may close a market to the goods of another country. Regulations regarding samples might also prove troublesome unless studied in advance. A salesman, for example, might

[10] During the war and thereafter allocations were made in terms of consumers and not producers. Sources available for allocation during the last half of 1946 produced only 18,055 tons. This amount consisted of Belgian, British, Dutch, and South American stocks, together with some found by occupation forces in Japan.

travel through several Continental countries without meeting many specifications. But when he arrived in France, he would have to pay full duties on his samples unless he would slash such items as handkerchiefs, shawls, and neckties in order to make them useless, put two oblique cuts or holes in socks and stockings (one in the leg and one in the foot), cut his fabrics so as to be less than 20 inches square, and lacerate shoe samples (they must be odd shoes) in the soles and vamps.

The Apple Goes to Market. In order to picture the working of these numerous restraints, let us assume the attempted sale, not of machinery and processed goods, but just of a quantity of apples. Let us assume that a farmer in the United States has grown some apples and that, since the domestic market is well supplied, he decides to export them to another country. He knows that his apples are good, that they are not the product of pauper labor. He does not want to harm any other nation's infant industries or vested interests. He merely wants to make a living by exchanging good apples for good money. Let us assume also that there is no war, that these are apples of peace and not of discord. To this end, let us assume pre-Hitler days.

He has heard that the United Kingdom is our best customer for apples, so he decides to ship to that market. He asks a friend to investigate the siuation. The friend finds that, because of a law, the United Kingdom forbids the importation of apples each year from July 7 to November 15 unless they are the higher grades—"U.S. Fancy" and U.S. No. 1" if packed in barrels and "Extra Fancy" and "Fancy" if packed in boxes; that sanitary and pest restrictions are in effect; that the duty (depending on exchange conditions) amounts to $1.11 a barrel or $0.35 a box.[11] Our farmer decides to try some other customer—a sensible decision since data after 1932 shows a decline of 38 per cent in English purchases.

Disappointed, but not daunted, our farmer decides to sell apples to our best apple customer on the Continent—Germany. So he asks for advice from his friend, who reports that Germany has no seasonal restrictions but has talked of imposing one for the past two years; that the sanitary and pest restrictions against the San Jose scale and other insects are being vigorously enforced; that the duty amounts to about $1.09 per barrel and $0.33 a box; that the amount which the government allows for imports is limited and that it probably will be only half of what was spent in previous years.

Our farmer, feeling that he has faced enough risks in growing the ap-

[11] The restrictions used in this illustration are those imposed between 1931 and 1932. They became increasingly severe after that date. In selecting apples, I have not selected an unimportant product. In the 1930's, apple exports represented over 50 per cent of the total value of all fruit exports, and was third in the value of unmanufactured agricultural commodities. Apple growers at that time relied on the export market to absorb 20 per cent of all the apples grown in this country.

ples, is unwilling to take the further risks of what the German government might do, so he decides to try our best customer for apples in Latin America—Argentina. He calls on his friend again. This time the friend reports that Argentina has a duty of 32 per cent of the delivered value; that each apple must be wrapped in special paper and that each wrapper be stamped with the name of the grower or shipper; that detailed markings must be placed on containers; that the penalty for sending fruit which is infected by certain diseases and pests is its destruction; that fruit is re-inspected at the Argentinean port of entry even though it is accompanied by the required sanitary certificate from the country of origin, visaed by the Argentine consul at the port of export; that it must be sent to either one of two ports of entry between May 1 and December 15 of each year.

The farmer turns to Canada as the last resort—the best apple buyer of North America. Promising not to trouble his friend, except "just once more," he asks about the chance for his apples in Canada. The duty on apples proves to be 20 per cent ad valorem (but this must not be less than three-fifths of 1 cent per pound, gross weight, package included); that 1 cent per pound is to be added for valuation on invoices; that a 3 per cent excise tax is also imposed; that the goods must be accompanied by a customs invoice that shows the home consumption value in the United States; that exchange protection might add an additional 42 cents per bushel; that sanitary regulations and inspections must be complied with; that regulations exist for marks of origin and grade of apple.

Our farmer wisely abandons the idea of exporting his apples and decides to feed them to his hogs. They, at least, enjoy the apples and take no time out for international conferences or parliamentary sessions. And who knows, muses the farmer, he might find a good market for his fattened hogs—he might until he begins to look up the restrictions on meat and lard!

Then, too, for completeness' sake, let us go back to our supposition but assume that he overcomes all these obstacles and finds a market. His problems then become the finding of cargo space, the filling in of necessary consular and other documents, and so on. But, then, when the apples reach their destination, he is likely to find that the importer's government prevents payment and holds out an alternative to exchange, namely, the right to spend the money and take certain commodities instead. Illustrations could be mutiplied without end. But this is not necessary. We know now that restrictions other than the tariff may be used effectively in curtailing world trade.

SUMMARY

Since nations are vitally interested in exports, the use of embargoes and export restrictions is unusual and is dictated only by national interest such

as the retention of the supply for home use or the prevention of the export of seedlings and other items that might become the basis for an industry elsewhere.

Milling and mixing restrictions have been employed to assure dominance of domestic produce in such undertakings as flour production. Other restrictions have attempted to give advantage to the domestic market over foreign markets. These include an emphasis on the marks of origin, buy-at-home movements, the boycott, public contracts, confining business to nationals, and government monopolies.

Other restrictions are incidental to some major purpose—sumptuary laws, quarantine and sanitary regulations, and informative labeling.

QUESTIONS FOR DISCUSSION

1. What are the usual reasons for export restrictions? Illustrate by referring to the policies of specific countries.
2. What is an embargo? What forms have "embargoes" taken?
3. What are the nature and purpose of milling and mixing restrictions? Where have they been used?
4. What is the purpose of marks-of-origin requirements? What have been the effects of such requirements? Describe the boycott and the "buy-at-home" movement as devices to protect domestic producers. Evaluate the "buy-at-home" argument.
5. Explain the purposes and operation of plans for "group control" of production and trade in basic raw materials. Illustrate.

CHAPTER XXX

WAR AND INTERNATIONAL COMMERCIAL POLICIES

Introduction. In spite of all the restrictions on international trade and the occasional outbreak of tariff and other forms of commercial warfare, trade is a peacetime activity. Threat of war, preparation for war, war itself, and postwar reconstruction impose innumerable restrictions on trade between nations. It is not our purpose here to go into all the laws, decrees, and changes which take place in commercial policies in time of threatened war and war itself. But we are going to point out the types of restrictions imposed by war and the effects on peacetime commercial policies and look at commercial policies in wartime.

Perhaps it would be much easier not to attempt to do this. We might say that war is outside of commercial relations. We might take a clue from one of the earlier schools of international law which took the position that, since war is the negation of law, there cannot be an international law of war. We might argue that war disrupts commerce to such a degree that there is no such thing as international trade or commercial policies in wartime. But this would be unrealistic, and, much as we hope that war has become historic, we should remain alert to the commercial changes that come in its train. No one can fail to see that World War I conditioned much of the international trade policy of the generation that followed; and, by the same token, the next generation or two will be influenced by World War II.

The reasons are not hard to find. Let us picture trade relationships before a war and then see what war does to them. In previous chapters we have used the elliptical language of writers on international trade which refers to trade, let us say, between "the United States and Canada." We have been saying that "the United States is a good customer of Mexico" or a good supplier "of Cuba." The language is elliptical because governments do not trade with each other except in unusual circumstances. Trade between the United States and Canada means trade between a person or firm in the United States and a person or firm in Canada. Now, the motivation for trading between these two is essentially the same as that which prompts trade between two persons or firms in the same city. It is the supplying of human wants and the winning of the profit that sparks that activity.

As we look over trade relationships between the persons and firms of various countries, we are impressed by the little change that takes place from year to year when the commodities traded are bulked into barrels of flour, pounds of dried fruits, square yards of cloth, board feet of timber, bales of cotton, sacks of coffee, gallons of olive oil, and rubber tires—to mention but a few for sake of illustration. In terms of value figures translated into percentages of any given market supplied by United States firms, the change from year to year is slight. The firms of each country seem to have carved out for themselves a certain portion of the market in another country, and they seem to hold on to it year after year. This may sound surprising at first, but it should not be after a little analysis. The reason is that each United States firm or exporting house trading with other firms in other countries builds a trade relationship, good will, and friendship when possible, and looks for reorders season after season and year after year. In a sense, just as the neighborhood grocer builds a regular list of customers whose wants after a while lump together into a fairly stable trade—a stability that passes on to the wholesaler, manufacturer, and farmer—so the United States exporter builds up a stable trade. The same is true of the importer.

International trade is, of course, subject to more interruptions and interferences than domestic trade. We have traced the major classes of restrictions in the two preceding chapters. Some, however, like the tariff, have become fairly certain. It is not the tariff that the average United States businessman fears or regards as a restriction so much as it is the change in tariff rates. Business is quick to take the expected restrictions in stride, although individual businessmen go down by the wayside in large numbers over the years.

The period since World War I has been so full of interruptions and interferences, what with the resurging nationalism after 1919, the depression in the thirties, World War II, and the alarming implications now that we are in the postwar period, that it is hard to say what normal international commercial relations are, and yet businessmen have found the means of establishing quite a degree of stability. Seemingly, economic needs and physiological needs for food, shelter, and clothing find a way of laughing at the vagaries of sovereignty.

Peacetime commercial relationships, then, between persons and firms in various countries, go on in a fairly steady fashion and make use of all of the familiar devices of contracts, partnerships, and other arrangements. They call for the use of rail and ships, credit extension and means of payment.

The Outbreak of War. War changes all of this suddenly. The change is sharpest when the trade relationship existed between two persons whose countries go to war. The declaration of war, usually one minute after

noon or midnight, disrupts everything that existed a minute earlier. It puts an end to all nonhostile intercourse between them and abrogates all treaties and agreements between their nations which need peacetime conditions for their implementation. This means treaties of trade and commerce and the myriads of rights they contain. It means the end of contracts and partnerships, agency relationships, cartel agreements, the freezing of funds, and the sequestration of property which either has in the country of the other. In short, it means the end of exports and imports.

But even in the case of an exporter or importer whose country remains neutral, trade relationships become disrupted. A neutral nation, in order to remain neutral, begins to curtail the types of commodities that may be exported or that may be needed later on if neutrality fails. Then, too, belligerent nations can limit an exporter in a neutral country by declaring a list of contraband articles which the neutral citizen may not ship to the enemy. So here, again, the owner of a firm in the United States might find its long-established trade cut off, not because his country is at war, but because that of his customer is so engaged. The shipping industry feels the effect of war more quickly and more directly than the exporter or importer because the ships ply the sea subject to search and the hazards of mines and submarines.

Disrupted export and import trade means the piling-up of surpluses in one place and the growing scarcity in another. Goods become quickly classified into strategic goods, necessary goods, and luxuries. Available shipping space is used for the first two types, and all sorts of scarcities develop which penetrate into the manufacturing processes and standards of living in neutral and belligerent countries alike. Governments seek to do the best they can under the circumstances for the industries whose export markets have disappeared.

There are, then, what we might properly call the commercial policies of war. They have four aims:

1. To obtain an adequate supply of necessary and strategic items which are lacking entirely and must be imported or which must be supplemented by importation and production, when possible, at home.
2. To make the best use of ships and other equipment.
3. To cushion the public and business against the shock of war as much as possible.
4. To keep as much peacetime trade relations with other countries as possible with an idea of retaining markets when peace ultimately comes.

In the discussion that follows, we propose to consider more fully a number of the conditions referred to in a general fashion above. In their development, illustrations will be used from World War II.

Neutrality as a Trade Restriction. War usually does not involve all nations at once or even ultimately. Hence, it is expected that just as a na-

tion declares war so that all other nations should be aware of it in a legal sense, so nations not involved declare their neutrality. The first Neutrality Act in the United States, as opposed to declarations of neutrality, consisted of a joint resolution approved in August 31, 1935. In essence, it was a limitation employed in time of war by our government to prevent us from becoming entangled through commercial activities. Subseqently amended in 1937, this was the law invoked by President Roosevelt on September 5, 1939, when he proclaimed that a state of war existed "between Germany and France; Poland; and the United Kingdom, India, Australia, and New Zealand." Later on, other countries were added by separate proclamations.

One important change had taken place in the law on May 1, 1939, when the section dealing with the "cash-and-carry" provisions expired. This "cash-and-carry" provision was essentially the statement that when the President declared the existence of war between foreign states it became "unlawful for any American vessel to carry any passengers or any articles or materials to any state named in such proclamation." But it was permissible to sell goods to such belligerents if "all rights, title, and interest therein shall have been transferred to some foreign government, agency, institution, association, partnership, corporation, or national." This "cash-and-carry" provision was considered helpful to countries that had the ships and the money in time of war.

From a commercial point of view, the Neutrality Act forbade the export of arms, ammunition, and implements of war to belligerents or to neutrals who might transship them to belligerents. On September 5, the President admonished "all citizens of the United States, or any of its possessions, and all persons residing within the territory or jurisdiction of the United States, or its possessions, to abstain from every violation of the provisions. . . ." At the same time he enumerated the following seven categories of forbidden exports:

1. Rifles, machine guns of all calibers, ammunition in excess of caliber .22, grenades, bombs, torpedoes, mines, and depth charges, filled or unfilled, and apparatus for their use or discharge; tanks, military armored vehicles, and armored trains
2. Vessels of war of all kinds, including aircraft carriers and submarines, and armor plate for such vessels
3. Aircraft, both heavier and lighter than air, which are designed for aerial combat by the use of machine guns or of artillery or for the carrying and dropping of bombs
4. Revolvers and automatic pistols using ammunition in excess of caliber .22 and the ammunition for same
5. Aircraft, both heavier and lighter than air, not included in Category 3, as well as propellers or air screws, fuselage, hulls, wings, tail units, and

undercarriage units; aircraft engines, unassembled, assembled, or dismantled
6. Projectors and flame throwers, together with 21 enumerated poison gases and chemicals
7. Propellant powders and 17 enumerated high explosives such as trinitrotoluene, picric acid, black saltpeter powder, and so on

The President's declaration forbade dealing in the securities of belligerent states and lending money to them. The President was allowed some discretion regarding ordinary commercial credits and the solicitation of relief funds when an agency not acting for such government was involved. No United States ship was to carry arms to belligerents or to a neutral nation for transshipment thereto. No United States citizen was to travel on ships of belligerents except according to regulations which the President might prescribe. No United States vessel engaged in commerce with a belligerent state was to be armed except sufficiently to preserve discipline on the vessel.

Combat Area. On November 4, 1939, President Roosevelt issued a blunt statement regarding the revised Neutrality Act, which went into effect on that day: "In plain English, the chief result is this: From now on, no American ships may go to belligerent ports, British, French, and German, in Europe or Africa as far south as the Canary Islands. This is laid down in the law and there is no discretion in the matter." The combat area, although clearly defined at any given time, was subject to change with the fortunes of war since its purpose was to keep our ships at a safe distance in order not to have them involved in international incidents. Hence, trade relationships became more and more uncertain from the point of view of the United States exporter and shipper.

The Neutrality Act was virtually repealed in November, 1941, because of the rapidly approaching war. The traditional neutral position of the United States, even before the war broke out, was made impossible by Axis tactics. This explains a number of acts by the United States that went beyond conventional neutrality. But niceties dealing with the question of whether to continue to treat an outlaw in a manner circumscribed by the very law that he denies belong outside the realm of reality.

Contraband. Another war limitation on trade consists of contraband, which is a list of products enumerated by a belligerent that a neutral ship may not carry for an intended hostile destination under pain of confiscation if found in transit. International law recognizes the right of search by belligerent vessels. Hence, the contraband list is no idle threat and must be respected. Briefly the procedure is this: A warship of a belligerent signals the vessel by radio or by firing a blank charge. If the signal is ignored, a projectile is fired across the bow. Then a boarding party is sent, in charge of an officer. A submarine may require the ship to send a boat together

with the ship's papers to the submarine. If the vessel is not carrying contraband, it is allowed to proceed. If it is carrying contraband, however, it is subject to seizure and taken to port. If the belligerent vessel is a submarine, it is likewise supposed to conduct the vessel to port. If the vessel cannot be brought in, it may be subject to destruction after provision has been made for the safety of the crew and passengers. It must be understood that in this account we have omitted the exceptions and refinements which make prize-court procedure very complex.

Early in World War II, Great Britain, Germany, and Italy announced their contraband lists. The British list, issued on September 5, 1939, covered all kinds of arms and ammunition; chemicals and appliances suitable for use in chemical warfare and articles for their manufacture or repair; fuels of all kinds; all transport contrivances; all means of communication; tools, implements, equipment, maps, pictures, paper and other articles, machines or documents connected with carrying on hostile operations; coin, bullion, currency, evidences of debt, metal, materials, dies, plates, machinery, and other articles necessary or convenient for their manufacture. Britain likewise had a list of "conditional contraband." This included all kinds of food, foodstuffs, feed, forage, clothing, and articles and materials used in their production.

The German list contained twelve classes of absolute contraband:

1. Arms of all kinds, their component parts and their accessories
2. Ammunition and parts thereof, bombs, torpedoes, mines, and other types of projectiles; appliances to be used for shooting or dropping of these projectiles; powder and explosives including detonators and igniting materials
3. Warships of all kinds, their component parts and their accessories
4. Military aircraft of all kinds, their component parts and their accessories; airplane engines
5. Tanks, armored cars, and armored trains; armor plate of all kinds
6. Chemical substances for military purposes; appliances and machines used for shooting or spreading them
7. Articles of military clothing and equipment
8. Means of communication, signalling, and military illumination and their component parts
9. Means of transportation and their component parts
10. Fuels and heating substances of all kinds; lubricating oils
11. Gold, silver, means of payment, evidences of indebtedness
12. Apparatus, tools, machines, and materials for the manufacture or for the utilization of the articles and products named in Numbers 1 to 11

At first glance, this does not seem to be a long list. Yet, when Number 12 is analyzed, together with the catchall phrase, "and their component parts and accessories," you have virtually a list of tremendous length. The list

of conditional contraband consisted of foodstuffs (including live animals), beverages and tobacco and the like, fodder, and clothing and articles and materials used for their preparation or manufacture.

The Italian list was very similar to the German although more detailed. For example, the German list referred to "means of transportation and their component parts." The Italian stated "means of transportation by land, water, and air, and draft animals, and saddle animals." The Italian included products for "bacteriological warfare." Germany and England made the distinction between absolute and conditional contraband, while Italy used the expression "occasional contraband." The "conditional" or "occasional" refers to commodities that conceivably could be used either by the civilian population or the armed forces. This makes for uncertainty, and the ultimate decision rests with the prize courts.

Blockade. Another restriction on commerce is the establishment of an effective blockade of one belligerent by another. Neutral vessels face a penalty if they are caught in an attempt to break through the blockade. During World War II, United States shipping was further baffled by the British blockade of Europe and Germany's attempt to blockade the British Isles. Of course, the blockade and the combat area were somewhat complementary, just as a limitation by the United States on certain exports and the contraband lists were complementary.

Lend-Lease and Reverse Lend-Lease. For practical purposes, the United States government became the major exporter after the spring of 1941. Under the Lend-Lease program the President was authorized to manufacture in United States shipyards and factories those weapons, munitions, aircraft, and vessels of all kinds required to be of definite help to European democracies contending against Germany.[1] These goods were not to be sold, but the title could be transferred to those nations whose battle lines were defending democracy. As time went on, the number of countries eligible for Lend-Lease increased and the type of commodity available underwent change. Countries received these goods on the basis of need rather than capacity to pay in goods or services. The ultimate settlement for Lend-Lease material was not to be decided until the war ended. This was stated in Article VII of the Anglo-American Mutual Aid Agreement which became the master agreement for other countries:

> In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished . . . . the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous

[1] A total of 3,096,990 gross tons of shipping was made available under Lend-Lease, as follows: Great Britain 1,997,448; Russia 613,950; Norway 181,923; Greece 100,771; France 93,445; Belgium 50,327; the Netherlands 28,202; Poland 16,529; and China 14,386.

economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941 by the President of the United States of America and the Prime Minister of the United Kingdom. [The Atlantic Charter.]

Under the Lend-Lease program, which lasted four and a half years, we exported a total of $33,000,000,000 worth of merchandise to those friendly nations authorized to receive such aid. The United Kingdom received 42 per cent of the total amount; Russia, 29 per cent; China and the Far East, 12 per cent; Africa and the Near East, 10 per cent; and the countries of the Western Hemisphere, 7 per cent. The Lend-Lease shipments accounted for 14 per cent of our total export trade in 1941, 61 per cent in 1942, 80 per cent in 1943 and 1944, and 54 per cent in 1945. Total Lend-Lease funds came to $50,442,337,239.

Reverse Lend-Lease consisted of such supplies and services which other countries afforded our troops abroad. These ranged from food supplies to services of civilians in Britain and elsewhere in building living quarters for personnel. Reverse Lend-Lease was to be computed throughout the war and then applied against Lend-Lease figures. This was an ingenious substitute for the system we employed during World War I, when supplies sent to the Allies were "put on the cuff," while we paid cash for supplies and services used. In the case of India, for example, the two sets of claims just about equaled each other. That is, we had extended help to India amounting to approximately $1,000,000,000, and India had extended values to us of the same amount. Accordingly, we were able to agree that no dollar payments would be necessary. Conceivably, had we followed the policy of World War I, we might have paid India $1,000,000,000 in cash during the war and then ended with $1,000,000,000 owing us which might have proved hard to collect. Arrangements have been worked out with the other countries as well. Reverse Lend-Lease totaled $7,387,041,673.

U.N.R.R.A. as a Postwar Policy. Relief of the civilian population of war-torn areas, especially at the close of war might also be recognized as a wartime policy of commercial significance. The United Nations Relief and Rehabilitation Administration was set up for this purpose. Forty-four nations, some of which had been invaded, set up the necessary funds. Our "share" exceeded $1,010,000,000 from March, 1944, when the relief

started, through June, 1946. Relief went to Central and Eastern Europe (78 per cent), Russia (11 per cent), and China (11 per cent). It consisted of foodstuffs (62 per cent), raw cotton (9 per cent), textiles and clothing (8 per cent), and other items (21 per cent). The latter included soaps, medicines, disinfectants, X-ray film, seeds and fertilizers, livestock—just to suggest a few classifications.

Freezing of Assets. One of a country's wartime activities is to freeze the assets of warring countries and their nationals, as well as those of neutrals who might help the warring nations that happen to be in the territorial limits of the country. Although not at war in April, 1940, we issued the first of a series of freezing orders which covered, by July 20, 1941, the assets found in the United States of twenty-nine countries and their nationals. Those of Soviet Russia, blocked on June 14, 1941, were released unconditionally just ten days later, while the assets of Switzerland, Spain, and Sweden were released on proper certification that they would not be used in behalf of the governments or nationals of any countries on our blocked list.

The Black and Gray Lists. The nature of the so-called "black" and "gray" lists has already been discussed in Chapter XXI. They represented something new in warfare in that they picked out persons or firms in countries not at war who were guilty or suspected of serving or favoring the Axis.[2] The proclamation, dated July 17, 1941, was based on various laws and the existence of an "unlimited national emergency." The list was to consist of:

a) Certain persons deemed to be, or to have been acting or purporting to act, directly or indirectly, for the benefit of, or under the direction of, or under the jurisdiction of, or on behalf of, or in collaboration with Germany or Italy or a national thereof; and

b) Certain persons to whom, or on whose behalf, or for whose account, the exportation directly or indirectly of any article or material exported from the United States, is deemed to be detrimental to the interest of national defense.

The proclamation goes on to say:

Section 2. Any person, so long as his name appears in such list, shall, ... be deemed to be a national of a foreign country, and shall be treated for all purposes . . . . as though he were a national of Germany or Italy. All the terms and provisions of Executive Order No. 8389, as amended, shall be applicable to any such person so long as his name appears in such list, and to any property in which any such person has or has had an interest, to the same extent that such terms and provisions are applicable to nationals of Germany or Italy,

[2] German firms abroad were used as espionage centers, financial agents, and centers for smuggling vital goods to the homeland.

and to property in which nationals of Germany or Italy have or have had an interest.

Section 3. The exportation from the United States directly or indirectly to, or on behalf of, or for the account of any person, so long as his name appears on such list, of any article or material the exportation of which is prohibited or curtailed by any proclamation heretofore or hereafter issued . . . . or of any other military equipment or munitions, or component part thereof, or machinery, tools, or material, or supplies necessary for the manufacture, servicing, or operation thereof, is hereby prohibited . . . . , except (1) when authorized in each case by a license as provided for in Proclamation No. 2413 of July 2, 1940, or in Proclamation No. 2465 of March 4, 1941, as the case may be, and (2) when the Administrator of Export Control under my direction has determined that such prohibition of exportation would work an unusual hardship on American interests.

The original list on July 17, 1941, contained 1,834 names all of which were confined to the Western Hemisphere. A supplementary list, issued two days after Pearl Harbor added 505 Japanese names. The list of January 14, 1942, was enlarged by 1,824 names of persons and firms in the Eastern Hemisphere—Iran, Iraq, Liechtenstein, Morocco, Portugal and her possessions, Spain and her possessions, Sweden, Switzerland, and Turkey. At its peak, the list consisted of 15,446 names. Our agents were alert to the fact that some of the suspected firms began to cloak their activities through others. This was one reason for the growth and revision of the list. It must be kept in mind that names were being removed as well as added. The closing up of a firm, the severance of connection with an obnoxious partner, the reorganization of a corporation, and the forgiving of minor offenders all contributed to this. On V-E Day there were 13,784 names on the list; on V-J Day, 11,443. Toward the end there remained a "hard core" of 6,053 persons and firms. But this, too, shrank to 5,887, the number when the President withdrew the proclaimed list on July 8, 1946.

Following is a typical page from the *Proclaimed List of Certain Blocked Nationals.*[3]

CHILE

García García, Teodoro.—Victoria 2704, Valparaiso. III–3.
García, Nicolás Yus.—Exposición 1044, Santiago. I.
García Serdio, Arsenio.—Puente 676, Santiago. III–2.
Gardeweg Villegas, Enrique.—Nuble 1168, Santiago. II–5.
Gardeweg V. y Hnos., Enrique.—Avenida Portales 1314, Valparaiso. I.
Garimani Valdata, Miguel.—8 Norte 1137, Viña del Mar. II–5.

[3] The above is page 85, arbitrarily chosen from Revision V, April 23, 1943. Roman numerals following the addresses refer to revisions which were necessary to keep the list current. Arabic numerals refer to supplements. For example, a name followed by the symbols II-1 means that the person or firm named first appeared in Revision II, Supplement 1.

Geco Ltda., Cía.—Zañartu 1052 (Casilla 346), Santiago. I.
General de Anilinas y Productos Químicos Soc. Ltda., Cía.—Huérfanos 1372 (Casilla 607), Santiago, and all branches in Chile. I.
General de Construcciones del Perú S.A., Cía.—Bandera 575, Santiago. I.
Gerhard y Cía, Ltda.—Catedral 1404–12 (Casilla 1716), Santiago. I.
Gerlach Straube, Hans.—Bolívar 352, Iquique. I–4.
Gerlach y Cía., Ltda.—Bolívar 352 (Casilla 9–D), Iquique, and Arica. I–4.
"Germania y Araucania," Compañía de Seguros.—Esmeralda 1015, Valparaiso. I–4.
Gesche Lichtenberg, Hermann.—Barros Arana 775, Concepción. IV–1.
Geschkat, Ernesto.—Aldunate 402, Coquimbo. II–1.
Gevert & Neeb.—Amunátegui 480, Santiago. I–1.
Giacaman, Musa Jiries.—Prat 466, Antofagasta. III–2.
Giemza Steel, Federico.—Prat 743, Valparaiso. I–2.
Giemza y Cía.—8 Norte 1137, Viña del Mar. I–2.
Giglio, Atilio.—Villaseca 943, Santiago. IV–2.
Giglio, Mario.—Avenida Argentina 163, Valparaiso. IV–2.
Giglio Raggi, Vittorio (Victor).—Rosas 1104, Santiago. IV–5.
Giglio y Cía.—Rosas 1104, Santiago. IV–5.
Gili Hermanos.—Bandera 643 (Casilla 3820), Santiago. III–1.
Giraudo, Bartolomo.—Barros Arana 433, Concepción. IV–6.
Gleisner, Lorenz.—Barros Arana 402, Concepción; and Avenida Bernardo O'Higgins 1395, Santiago. II–3.
Gleisner, Wolrad Moritz.—Barros Arana 402, Concepción; and Avenida Bernardo O'Higgins 1395, Santigao. II–3.
Gleisner y Cía., Ltda., M.—Barros Arana 402, Concepción; and Avenida Bernardo O'Higgins 1395, Santiago. I.
Gnadt, Walter.—Avenida Portugal 8, Santiago. II–2.
Goecke, Alberto.—Rancagua 194, Puerto Montt. IV–2.
Goecke & Wiesenborn.—Pérez Rosales 224–225, Puerto Montt. IV–2.
Goehring Schunider, Helmuth. Valdivia. II–2.
Goldmann, Janssen.—Blanco 1121 y Plaza A. Pinto 1179 (Casilla 1566), Valparaiso. I–2.
Goldmann Schaub, Erich A.—Avenida Brasil 1727 (Casilla 1378), Valparaiso; and Huérfanos 930 (Casilla 456), Santiago. I–2.
Goldmann Schaub, Kurt.—Blanco 1121 y Plaza A. Pinto 1179 (Casilla 1566), Valparaiso. I–2.
Gómez Henríquez, Alfredo.—García Reyes 37, Santiago. III–3.
Gómez-Marañón, Nicolás.—Avenida Argentina 328, Valparaiso. III–4.
Gómez-Marañón y Cía.—Avenida Argentina 328, Valparaiso. IV–1.
González Jamett, Eduardo.—Esmeralda 970, Valparaiso. I–1.
González, José M.—Casilla 278, Talca. II–5.
González y Cía., Ltda.—Esmeralda 970, Valparaiso. I–1.

Custodianship of Alien-Enemy Property. The fate of real and personal property of an enemy subject within the jurisdiction of a belligerent is of serious import to international traders. In earlier times such prop-

erty was appropriated by the state. Later on, treaties recognized the rights of enemy aliens in wartime so long as they remained law abiding. In World War I the institution of the Office of Alien Enemy Property was set up by Britain, France, the United States, and other belligerents. The custodian was given control of such property for the duration of the war. The victors assumed the right under the peace treaty to liquidate this property within their own territories and to apply the value received to reparation account of the conquered states. The latter, in turn, were supposed to compensate their own nationals. Since they failed to do this, the effect was the same as confiscation from the former owner's viewpoint.

In World War II our custodian seized $300,000,000 worth of property, which represented control of almost a half billion dollars in assets. He took over 45,000 patents and inventions as well as a half million copyrights, the monetary value of which could not be estimated. Some of the property was seized as a matter of course; but an eye was kept open so that German and Japanese influence would be permanently eradicated. Enemy interests in 414 businesses were vested in the states and territories of the United States. Thirty were sold; 3 were returned to former owners; 46 were liquidated; 251 were being liquidated in 1946; and 84 were continuing as going concerns. Most of the patents seized were made available through licensing on a royalty-free nonexclusive basis. A nominal administrative fee of only $15 was charged. The property of nonhostile persons domiciled in areas invaded and held by the enemy is returned when war ends. The right of suit to retrieve property is not entirely closed, although pressure has been brought to outlaw such suits.

Licensing and Control of Exports. In wartime, in addition to placing an embargo on the export of some goods, nations find it necessary to restrict or limit in one of a number of ways exports and re-exports. The latter consists of raw materials and semifinished goods brought into a country to be sent out again after having been changed in some way through blending, sorting, grading, or cleaning or after having been carried through additional steps of processing. Petroleum, for example, might be imported in its crude form and then exported in the form of refined petroleum products. Or coffee might be brought in and blended for shipment elsewhere. Each country usually announces a list that is basic, and then additions are made as the war progresses and the pinch of growing scarcity becomes more painful. Typical of this is the list of forty-seven classes of essential goods subject to license in the Netherlands in August, 1939, which soon had grown to sixty-eight and more within a fairly short time.

In the United States, our control law dated from July 2, 1940. United States export control was vested by Presidential proclamation in an Administrator of Export Control. On the basis of information furnished by

the Army and Navy Munitions Board; the Advisory Commission to the Council of National Defense; the Departments of State, Treasury, Agriculture, and Commerce; and the Maritime Commission, the administrator was to decide which exports were to be licensed. The list grew every week as the period of neutrality ended and the war followed. The number of items ran into thousands. Included were all the munitions and items closely associated with war. But in an all-out war, it is fairly difficult to imagine any item that does not fit into the picture of defense.

Another phase of export control took the form of price control over exports. Since United States prices were subject to price ceilings, all export prices were subjected to the same control on April 25, 1942. They were fixed at the cost of acquisition by the exporter plus the average premium charged in the export trade on a similar transaction between July 1, 1940, and December 31, 1940, or March 1, 1942, and April 15, 1942, whichever period yielded the lower average premium. Added to this were amounts sufficient to cover war risk insurance, consular fees, demurrage charges, and shipping charges. The basis for this control was the realization that, since our exported goods were confined to friendly nations only, it would be poor policy to allow prices to soar out of reach. There would have been an internal problem, too, were our government to allow extraordinary profits in one phase of our economy and to limit prices in another part.

The Importation of Strategic Materials and the Building of Stock Piles. The United States normally purchases about one-half of the important raw materials produced in the world. Our supply of these materials is not high in normal times since reliance is placed on continuous production elsewhere and uninterrupted shipments to this country. We have very few restrictions at such times against imported raw materials. Most of the materials are on the free list of the tariffs of both political parties or on their lists of commodities subject to very moderate duties.

But war in any part of the world has its immediate effect on the raw material supply. The effects of dependence on the Far East for rubber, for example, is too fresh and clear in our minds to question this fact. Fortunately, the United States Navy began building a stock pile of essentials in 1938. In about two years, $4,500,000 of materials had been imported. Attention was given with the passage of precious time to the problem of our supply of the major strategic war materials.[4] It was found that we were dependent on other regions for all or much of the following items: rubber, manganese, tin, chromium, tungsten, mercury, antimony, manila fiber,

---

[4] As opposed to *strategic*, there were *critical* materials, less difficult to secure or possessing less essentiality, or obtainable from domestic sources: aluminum, asbestos, cork, graphite, hides, iodine, kapok, opium, optical glass, phenol, platinum, tanning materials, toluol, vanadium, and wool.

nickel, silk, quartz crystals, mica sheets, quinine, and coconut shell char (used in gas masks).

On June 7, 1939, the Strategic War Materials Act was passed which declared that it is to be the policy of Congress and the intent of the act to provide for the acquisition of stocks of these materials and to encourage the development of mines and deposits when found in this country. The Secretaries of War, Navy, and the Interior, acting through the Army and Navy Munitions Board, were directed to determine which materials were strategic and which critical. Purchases were to be made in accordance with the "Buy-American Act" of March 3, 1933. An appropriation of $100,000,000 was voted for the fiscal years June 30, 1939, to June 30, 1943, inclusive. An additional appropriation was made for discovering and utilizing United States supplies.

The Rubber Reserve Corporation with a capital of $5,000,000 and loans of $140,000,000 from the Reconstruction Finance Corporation purchased and stored rubber in 1940 and 1941. The Metals Reserve Corporation purchased $100,000,000 worth of tin and manganese.

Out of this war experience, there cannot help but emerge what might well be called an international commercial policy on strategic materials. This will consist of a constant stocktaking within each country to look for resources yet untapped and to encourage achievements in the field of synthetic chemicals. Nations are not going to be content with supply sources halfway across the world. Where domestic supplies are not available, hemisphere supplies will be sought; and where these are not available, national stock piles may be expected to constitute a regular part of expenditures for national defense. Just what part the United Nations will play in this is difficult to foresee, for example, if a nation is observed stocking up on materials that are used in atomic bombs. Industry may face a certain amount of government competition in the purchase of raw materials. Governments might decide to monopolize all such materials in stock piles and to sell them for peacetime purposes to industry at large.

Other Effects of War. Since the goal of international trade in wartime differs from that of peacetime, we find not only the imposition of many new controls but also some relaxation of old controls and some need for government support for products that have lost their foreign market or that cannot get along within a price-ceiling structure. In the latter case, subsidies have been paid. Quotas lose their significance when the question ceases to be control of oversupply and becomes one of any supply at all. The same holds true of import licenses, tariffs, and, to a degree, exchange restrictions. In 1942, for example, $214,485,870 in tariff revenue was sacrificed by the free importation of $524,284,870 worth of "war materials purchased abroad" and by the free entry of "merchandise as an act of international courtesy." An analysis of these products is offered in Table 57.

TABLE 57

IMPORTS SUBJECT TO DUTY BUT ADMITTED FREE OF DUTY BY EXECUTIVE ACTION

Commodity	Imports Free of Duty, 1942			Loss of Duty or Revenue
	Unit	Quantity	Value	
Foodstuffs and beverages:				
Canned beef, corned beef	Lbs.	14,800,633	$1,818,460	$444,019
Tallow, beef and mutton (edible)	"	2,087,401	133,235	36,530
Tomatoes, canned	"	5,963,330	252,437	63,109
Sunflower oil (edible)	"	15,571,773	1,381,644	488,518
Molasses (blackstrap)	Gals.	45,602,394	8,176,938	42,394
Malt liquors (beer)	"	1,081,961	576,828	540,980
Animal and vegetable products (nonfood):				
Tallow, beef and mutton (inedible)	Lbs.	7,958,000	413,787	139,265
Bristles, sorted or prepared	"	62,637	187,796	1,879
Feathers for beds	"	41,337	126,400	25,280
Rubber, crepe sole	"	564,525	137,292	27,458
Rubber tires and tubes for automobiles	Number	10,636	418,046	48,656
Coconut oil	Lbs.	13,391,783	793,531	267,836
Rapeseed oil (not denatured)	Gals. Lbs.	1,462,688 11,191,383	933,809	591,373
Sunflower oil (denatured)	"	3,789,911	334,452	85,273
Linseed oil	"	14,009,414	1,155,588	630,424
Expressed oil, n.s.p.f.	"	2,258,260	406,198	81,240
Textiles:				
Cotton fabrics with fast edges and cotton articles, n.s.p.f.	. . .	. .	485,559	178,484

The Structure of Trade in Wartime. With the change in emphasis on goals in international trade in wartime, the structure of trade becomes governmental. In the United States, the Foreign Economic Administration was created on September 25, 1943. It was formed from a number of existing agencies such as the Office of Economic Warfare (an interesting title for the student of foreign relations), the Lend-Lease Administration, parts of the Foreign Relief and Rehabilitation Operations, and of the Office of the Foreign Economic Co-ordinator of the Department of State. Later on, the War Food Administration and the foreign activities of the Commodity Credit Corporation were included.

The Office of Economic Warfare embraced the United States Commercial Company whose function was to acquire strategic materials and to rid the Western Hemisphere of Axis and Axis-influenced interests in the fields of communication and related activities; the Rubber Development Corporation; the Petroleum Reserves Corporation which was concerned with obtaining reserves of crude petroleum outside of the United States.

The Foreign Economic Administration ended on September 27, 1945, when its functions were divided among the State Department, the Recon-

struction Finance Corporation, the Commerce, and Agricultural Departments. The Office of International Trade in the Department of Commerce was formed to take over the export-import functions and trade promotion activities. The State Department was given the planning and economic control of the occupied areas as well as the gathering and analysis of economic and commercial information.

The Export-Import Bank aided in the financing of exports and imports, as well as in the development of resources and orderly marketing of products for countries in this hemisphere.

Postwar Occupied Areas. Postwar international trade usually goes through three stages: (*a*) what might be called the "occupied-area stage"; (*b*) the peace-conference stage; and (*c*) the return-of-sovereignty stage. At the present time, the Departments of State and War control the foreign trade of those portions of Europe and Asia under the control of the United States. Russia, France, and England likewise control certain areas. The period of this occupation is uncertain and may run into many years. Two commercial policies seem to underlie the acts of the occupying authorities. One is to make exports pay for imports of necessities so that the areas cease to be drains on other countries. The other is to prevent the emergence of such industries as contribute to militarism.

The peace-conference stage usually shapes the future of a defeated area by delimiting its boundaries, its harbors, its access to the sea, its supply of domestic raw materials, its relationship to former colonies, its population, and its reparations. All of these elements have to do with domestic as well as international trade. An area such as Alsace-Lorraine virtually assures industrial greatness to the country owning it, while a landlocked nation or a nation whose boundaries lack important raw materials is bound to suffer. This is a period, likewise, when the attention of the victorious powers is centered on the defeated countries and little power is given the latter to determine tariffs and other international commercial policies.

Ultimately, a defeated nation regains her sovereignty and once again begins a rebuilding of prestige, using the familiar mercantilistic devices. Where such devices have led in the past, we know. Where they will lead in the future depends upon a wise occupation policy, realistic treaty terms, the strength of the U.N.O., and the good faith back of our promises about use of the air and the availability of raw materials to all who need them, as well as the other promises of the Atlantic Charter.

Reparations and Their Commercial Significance. The payment of reparations by the vanquished aggressor is another international war policy of fundamental importance to future commercial policies and world trade relations. Without going into too much detail, let us consider the reparations of World War II. The Yalta Conference in February, 1945,

laid down the principle that Germany was to pay reparations in kind, that is, in material things such as industrial plants and equipment, ships, and so on. The conference also set up the Allied Commission on Reparations. In July of that year, clearer principles were enunciated at Potsdam. Germany was to be disarmed industrially to the point where her standard of living would be reduced to the level of her neighbors, and eliminated entirely as a war potential. She was to devote her future to the development of agriculture and peacetime industry. Russia was to get a share of reparations by removing from the eastern zone of Germany the industrial equipment found there, together with all German assets discovered in Bulgaria, Finland, Hungary, Rumania, and eastern Austria. She likewise was to receive 25 per cent of the industrial plants in the western zones not needed for Germany's peacetime economy. Polish reparations were to be paid out of Russia's share. All other countries were to obtain reparations from the remainder of the western zones and all of the remainder of Germany's external assets wherever found in the rest of the world.

To implement these principles, eighteen nations sent their representatives to Paris for a conference which met in November, 1945—the United States, the United Kingdom, France, Albania, Australia, Belgium, Canada, Czechoslovakia, Denmark, Egypt, Greece, India, Luxemburg, Norway, New Zealand, the Netherlands, the Union of South Africa, and Yugoslavia. Here the working principles of reparations such as equitable division among the eighteen were agreed upon. An Inter-Allied Reparation Agency was set up. A formula for valuation of German property was announced in March, 1946. The Inter-Allied Reparation Agency began its labors and by April 1, some 450 western-zone plants were earmarked for dismantling and removal.

The agency in the United States is known as the "Office of War Areas Trade" and is part of the Department of Commerce. From time to time, persons and firms in the United States have been asked to notify this office of their interest in buying such plants and equipment and of whether they plan to use them in the United States or a third country. Typical of the public announcements of such properties are the following:

Kloeckner-Humboldt-Deutz A. G., Oberursel.—Machinery: Principal products: Diesel engines and parts for motor vehicles and transport aircraft; also marine-type Diesels. During war produced 4- and 6-cylinder 1800 r.p.m. transport Diesel engines.

Hensoldt & Soehne, Herborn.—Optics: Principal products: Optical and mechanical instruments, including binoculars, gun telescopes for tanks, gun telescopes, simple and submarine telescopes and angular gun telescopes. Plant comprised tool and die department, lens-grinding department, assembly and inspection department, and metal-cleaning and plating department.

Toeging, Inwerk A. G., Toeging, Bavaria.—Hydroelectric power plant: Hydroelectric power plant supplying power to an aluminum production plant (Only *electric part* of the power plant is to be allocated), 42,000 kilowatts.

Fabrik Hess Lichtenau, Fuerstenhagen (near Kassel), Germany, Plant No. 15: Principal product: Explosives. Manufactured military high explosives (TNT, picric acid), shells and bombs. Plant was specially built for production and processing of military high explosives, having three TNT production lines, two pressing lines, and two shell-filling lines, plus accessory and subsidiary departments, including a power plant. Only the general-purpose equipment of this plant is available for reparation.

The plan of reparations calls for a production-capacity reduction ranging from 50 to 55 per cent of the capactiy of that country in 1938; a standard of living 30 per cent below the pre-war level; and reductions in exports and imports. By 1949, exports are expected to equal 3 billion reichsmarks and imports to be set at the same figure. In 1936 the exports had been 4.8 billions and imports 4.2 billions.[5] To the extent that Germany was the industrial heart of Europe, we may expect a new economic relationship to develop which may by-pass Germany or which may include her with the Netherlands, Belgium, and the smaller states.

SUMMARY

Since trade is a peacetime activity, it faces severe curtailment between neutral and belligerent nations and complete stoppage between the belligerents themselves. The latter nations usually announce lists of contraband articles—those that are subject to seizure if shipped by neutrals. Combat areas are sometimes set aside by neutral governments, belligerent territory closed to their ships. Belligerents, in turn, likewise attempt to keep neutral shipping away from their enemy by blockading the coasts.

The aid given by the United States to her allies differed in World War II from that given in World War I. Known as Lend-Lease, it had its origin somewhat before actual entry into war. Instead of money loans to be spent on goods, Lend-Lease consisted of war supplies which were to be offset by services and supplies afforded our troops (reverse Lend-Lease) and by such settlements after the war as would not jeopardize international economic relations and trade channels.

Other impacts of the war took the form of freezing assets located in this country but belonging to the belligerent nations and their nationals, the enunciation of the "Blacklist," the sequestration of enemy property, the setting-up of strict systems of licensing and control of exports, and the building-up of stock piles of strategic materials.

A postwar consideration of enormous portent for the period that fol-

[5] See the informative article, "German Reparations—Program's Status Now," *Foreign Commerce Weekly*, July 20, 1946, pp. 3 ff.

lows the return of peace is that of reparations. The latter constituted a most unsatisfactory element in international relations after World War I. Reparations for World War II have not yet been fully established. Thus far, they have taken the form of payment in kind—factory buildings and equipment.

QUESTIONS FOR DISCUSSION

1. Give a detailed statement of the effects of the outbreak of war on commercial relations between citizens of belligerent nations.
2. Define "neutrality" and show its effects on the exporter.
3. Define: (*a*) combat area, (*b*) contraband, and (*c*) blockade.
4. What was Lend-Lease, and what did it accomplish?
5. Define "reverse Lend-Lease," and show how it helped to prevent a repetition of certain phases of World War I financing.
6. Suggest the effects of the "Blacklist" on the pattern of Latin-American trade.
7. What was the work of the Custodian of Alien Property?
8. Through what agencies did the United States carry on wartime trade?
9. What effects will the reparation payments in kind have on the future (*a*) of Germany, and (*b*) of the countries receiving the factories, etc.?

Chapter XXXI

THE COMBINATION MOVEMENT IN INTERNATIONAL TRADE; THE WEBB EXPORT ASSOCIATIONS

The Corporation as a Trading Device. We have already considered the trading company and the use made of it as a tool of mercantilism. The last of these companies to hold great power was the British East India Company, which went out of existence in the decade of the fifties. After that some minor use was made of the corporation for exploitation and development in colonial and distant regions. But the companies no longer enjoyed sovereign rights with the possible exception of those set up by Portugal for the development of colonies in Africa.[1] What powers the ordinary corporations had grew out of their economic importance and such favors as governments extended them.

Its Use after 1918. After World War I the corporation as a means of regional trade control reappeared in a somewhat new form but still as a mercantilist device. One such corporation, the Amtorg, has conducted all import and export trade between the U.S.S.R. and the United States. Although a private trading company, organized under the laws of New York, it is, nevertheless, an agency of the Russian government which has conducted international trade as its own monopoly since 1918. From the time the Amtorg began business until May, 1941, it had expended about one billion dollars for United States goods ranging from agricultural products to "entire automobile plants, complete steel rolling mills, hundreds of machine tools, large electric motors and other capital goods."[2] Even the purchase of a battleship was not deemed beyond its capacity, although the sale did not materialize. Its working force in normal times consisted of more than two hundred persons who occupied six floors of a building in New York City. As sole buying and selling agency, this corporation, it has been claimed, could serve Russia equally well as a tool in diplomatic relations—buying when relations are cordial and switching orders elsewhere at other times. This use of trade as a weapon has been

[1] The Mozambique Company was incorporated by a royal charter in 1891. Its fifty-year charter expired in 1941. Another company, the Nyasa Company, was set up with sovereign rights over 73,292 square miles of territory. This was taken over by the provincial government in 1929.

[2] *New York Times*, May 25, 1941.

made easier by the fact that trade delegations are included in Russian embassies and enjoy great power.

Italy and Germany had likewise found the corporate form or some other means of concentrating trading power in the hands of a few agencies to be of use in their nationalistic programs, especially in controlling exports and imports. There have been a number of other corporations formed in recent years to facilitate trade with particular regions. Reference has already been made to Britain's trade with the Balkans, and there have been attempts made by Brazil and other countries to build up trade through export corporations. Government agencies to buy up surplus commodities and seek foreign markets may also be included in this general classification.

The Cartel Defined. Trade control has also been exerted through the institution known as the "cartel"—a term broadly suggestive of informal and formal international combinations, trusts, and monopolies. A committee of the League of Nations has defined cartels as "associations of independent undertakings in the same or similar branches of industry established with a view of improving conditions of production and sale."

Dr. Corwin D. Edwards, Chairman of the Policy Board, Anti-Trust Division, Department of Justice, pictures three classes of cartels—the association, the patent licensing agreement, and the combine:

1. *The Association.*—The international cartel association is comparable to a national trade association which is concerned with restrictive activities, except that in the former case members are producing companies in various nations. The power of such an association depends upon the proportion of the total output controlled, as well as the degree of support accorded by members to the term of their agreement. In certain nations a cartel agreement of this character cannot be enforced legally and participation in it may even involve legal penalties. Because of this characteristic, American companies have been more cautious than European in taking part in cartel associations. Others have participated through export associations in accordance with the immunity provided by the Webb-Pomerene Act.
2. *The Patent Licensing Agreement.*—This is the most common type of international cartel among industries where technological progress has been rapid. The agreement rests primarily upon the fact that the participants in the cartel hold patents and/or operate under patent licenses. The owner of a patent enjoys certain monopolistic rights in most countries. Under a patent licensing agreement each party undertakes to grant to the other a right to use the processes developed in its research, both past and future, and each concern recognizes certain territories as the private domain of the other.
3. *The Combine.*—This form of cartel controls international markets not by contract but by uniting competitors under a common ownership or man-

agement. The basis for market control is thus the corporate structure. In its most frequent form a small corporate combination in a particular industry is generally made part of a larger cartel pattern maintained by intercorporate contracts of a broader scope. These jointly-owned subsidiaries are thus able to supplement patents and process agreements in particular markets. Sometimes international corporations, like domestic ones, are bound together by informal or indirect arrangements rather than by formal ownership of stock.

Cartels are concerned essentially in regulating the output, sale, and prices of their products. This means a certain jealous guarding of their markets both at home and abroad, prevention of price cutting, restriction of production, and other "trust" goals. But at the same time, they do not overlook the possibilities of more efficient production through standardization, interchange of patents and processes, research, adoption of new inventions, joint purchasing, and other practices of efficiency monopolies. In many respects, patents and research rank among the most valuable assets of a cartel.

The Cartel Defended. The cartel is not in its nature necessarily an evil, but it has won this connotation, at least in the United States. Our Webb Export Corporations are not referred to as cartels. Similarly, the control of raw materials by intergovernmental commodities are not called cartels, but international commodity agreements. The latter, strictly speaking, are not cartels. But they are cartel-like in seeking the benefits of controlled output and certain markets. They try to avoid the associated evils.

Professor J. Anton de Haas offers the following defense of cartels:

A system of industrial organization which tends to stabilize production and to introduce changes gradually and carefully may conceivably hold out greater promise of building a world without economic conflicts than the system of uncontrolled "progress" from which the world has thus far suffered. If a certain degree of rigidity is thus introduced into our economic system, we may well inquire whether this is not to be preferred over a system subject to hectic fluctuations, with recurrent loss of invested capital, unemployment and social upheaval. Even if it should prove true that cartels tend to hold back progress, this may therefore turn out to be one of the most desirable features of the cartels in a world in which not expansion but coordination of existing capacity may prove to be the greatest immediate need.[3]

The Privately Owned Corporation. The privately owned corporation assumed greater and greater significance in international trade when corporate shares themselves became a part of international commerce. They could be bought and sold easily in the exchanges of leading cities

[3] "Economic Peace through Private Agreements," *Harvard Business Review*, Winter Number, 1944, p. 149.

throughout the world. Englishmen could purchase the stock of German companies. Germans could invest in English firms.[4] Billions of dollars ultimately overran national boundaries. Economic interests became broader than sovereign limits and found an easy way to circumvent them.

The results are familiar. Companies in one country established subsidiaries in other countries. Corporations in the same lines of business, but operating in different countries, formed pools and holding companies, exchanged shares of stock, and reached numerous agreements of all sorts. In this way, the corporate form became the basis for the cartel and other forms of centralized control over price, quantity, and territory.

The History of the Cartel Movement. Dr. Plummer, in his *International Combines in Modern Industry* points out that "although a few roots reach back into the nineteenth century, the various forms of international combinations to be seen in the world today may fairly be described as very largely twentieth-century products."[5] Professor de Haas notes the "first combinations of the modern type" as far back as 1181, "when in Pisa and Lucca merchants combined, often with the city authorities as partners, in the exploitation of enterprises." He mentions also the salt combine between producers and governmental offices in France and Naples in 1301. Apparently, there were quite a few during the medieval period. It is interesting, however, that the successful combines were generally those of traders rather than producers. "The traders were financially stronger and were often assured the support of the city governments and of the local princes. Many of the earlier combines, in fact, resulted from the need for money on the part of the governments who granted the privilege of combination to a selected group for a substantial monetary return."[6]

Prior to 1900 the cartel was used in the alum industry as early as 1771 and in the manufacture of steel rails. The latter, known as "Irma" (International Rail Makers Association) was founded in 1883 and has been called "the grandmother of them all."[7] Combinations were also found in the industries concerned with salt, dynamite, bismuth, borax, acetic acid, carbides, porcelain, table glass, watch glass, enamelled ware, and cement. From 1900 to 1914, cartels were organized to deal with wire-netting, petroleum, incandescent lamps, glass bottles, and so on. Estimates place the number of cartels at forty in 1897, at about one hundred in 1912. In

---

[4] Clapham, J. H., *The Economic Development of France and Germany 1815–1914* (Cambridge, Eng.: Cambridge University Press, 1936), p. 401.

[5] Plummer, Alfred, *International Combines in Modern Industry* (London: Sir Isaac Pitman & Sons, Ltd., 1938), p. 3.

[6] De Haas, J. Anton, *The Practice of Foreign Trade* (New York: McGraw-Hill Book Co., Inc., 1935), pp. 432–33.

[7] Lippincott, Isaac, *The Development of Modern World Trade* (New York: D. Appleton-Century Co., Inc., 1936), p. 151.

1914 "there were 114 known to have a habitation and a name, a headquarters, a written agreement, but nobody knows how many gentlemen's agreements to respect one another's domestic markets had been tacitly reached between competitors who faced each other across national borders."[8] The first World War brought the cartels to an end in so far as business between the nationals of belligerents cannot continue during war. Most of the cartels involved companies in Germany, Belgium, France, and England—all of whom were engaged in hostilities.

Reasons for Postwar Growth. After the war, cartels once again became numerous, partly through the revival of old ones and partly through the establishment of new ones. Haberler mentions that there were 320 cartels in this period, of which 230 were industrial in character.[9] This growth was due to the attempt to cope with the great expansion of physical plants brought on by the war, the rapid industrialization in countries hitherto dominantly agricultural and content to import finished goods, the attempt to regain lost markets by some countries and the retention of new markets by other countries, changing prices, and the fear of competition. But equally important as a cause for the postwar growth of cartels and more significant from the international point of view was the failure of a remapped Europe to have political boundaries conform to economic needs. The cartel was the answer to the blunders of diplomacy. Next to having sovereign power over productive areas, some form of economic control was the best alternative. In Dr. Plummer's opinion, "many international agreements would not be international if political frontiers had not been drawn through national political units."[10]

The Depression of the Thirties. The depression of the thirties cut the number of international combinations because of price decline. This was partly a market force and partly the position taken by governments that deflation could not take place if certain fields retained rigid prices—rigidity being frequently a result of cartel agreements.[11] Another factor was the increasingly restricted state of world markets through tariff and other restrictions.

International Attitude toward Cartels. Like other international commercial policies, cartels have enjoyed their share of attention at world conferences. Three attitudes had become apparent by the middle of the thirties. The first, which might be called the "League attitude," frowned on attempts to control raw materials and especially the use of

[8] Leifmann, Robert, *Cartels, Combines and Trusts* (London: Europa Publishing Co., Ltd., 1932), p. 19.

[9] Haberler, Gottfried von, *The Theory of International Trade* (New York: Macmillan Co., 1937), p. 329.

[10] Plummer, *op. cit.*, p. 62.

[11] Condliffe, J. B., *The Reconstruction of World Trade* (New York: W. W. Norton & Co., Inc., 1940), p. 337.

control for purposes of discrimination against other countries. The second, or the "French attitude," favored the spread of cartels as a means of eliminating free competition—an indispensable preliminary to a general lowering of tariffs. The third viewpoint, discussed below, was that held by England, Holland, the Scandinavian countries, and Germany, the home of cartels. These three attitudes deserve some additional examination.

The League attitude is not a condemnation of cartels as such, nor is it a condemnation of international economic agreements that tend to stabilize prices. It grows rather out of the belief that economic agreements should be between nations which, *inter alia*, will refrain from unnecessary interference with exports needed by others:

> International regulation schemes should be so framed as to admit the effective association of consuming interests with their administration, and so as to make available adequate information regarding their operation. They should be administered in such a way as to provide consumers with adequate supplies of the regulated material, to prevent so far as possible, the price of the regulated material from rising to an excessive height and to keep it reasonably stable.
>
> In so far as Governments are themselves parties to a scheme they will of course be responsible for seeing that the scheme is framed and administered in accordance with these principles.
>
> Where Governments are not themselves parties to a scheme, they should be ready, so far as circumstances permit, to use their influence to secure the application of these principles by their nationals that are parties to it.
>
> In either event, they should take all possible steps to insure the investigation of complaints by other countries in regard to the operation of the scheme.[12]

The French view is expressed as a hope "that agreements among the producers of different countries, united in international cartels, might prepare the way for the removal or lowering of tariff barriers," or, as one advocate has put it, ". . . . to organize the European industries upon the horizontal method, that is by branches of industry." Professor Haberler dismisses the cartel as a solvent of high tariffs on the following grounds: ". . . . that the cartellization of agriculture is not possible yet protection finds a stronghold in agriculture; that it is not suitable to products which come from small and medium-sized firms—hence articles of craftsmanship would be excluded; that some cartels are themselves products of protection and could not be expected to advocate its displacement. In short, cartels might lead to tariff removal if they became its substitute—a situation which would defeat the purpose of tariff reduction."[13]

Dr. Plummer asks:

[12] *The League from Year to Year, 1937, 1938,* League of Nations, Information Section, pp 120–21. Quoted in Dietrich, Ethel B., *World Trade* (New York: Henry Holt & Co., 1939), pp. 375–76.

[13] Haberler, *op. cit.*, pp. 329–30.

> How far, then, do international combines make protective tariffs unnecessary or ineffectual? Where the home market is entirely reserved to the local members of an extensive and powerful international combine, the effect is to transform a more or less partial obstacle—the import duties—into a complete barrier which all members of the international combine agree not to try to climb. The more comprehensive and closely-knit the international combine, the more complete and effective is the protection of the home industry. Moreover, special circumstances arise which make it desirable, from the combine's point of view, that goods *will* be imported, tariff or no tariff. Such temporary suspension of an agreement to "reserve" a certain home market might take place in order to break a strike of the combine's employees in that market. Thus, in the circumstances here outlined protective tariffs appear to be neither necessary nor effectual . . . .
>
> The reservation of home markets, therefore, smacks strongly of high protectionism. But there are differences; for not only does reservation of the home market under an international agreement usually give to the home producers more complete freedom from actual and threatened foreign competition than protective tariffs, but, unlike a protective duty, it is not a kind of local barricade erected under the influence of economic nationalism. It is, on the contrary, part of a larger scheme of economic internationalism. But, on the other hand, although international combines (and especially cartels) give more complete protection while they last, they are commonly less permanent than tariffs.[14]

This view probably underlies the "sceptical and unsympathetic" attitude toward the French thesis exhibited by other countries. But a more tangible reason is the internal policies of these other countries regarding cartels and monopolies, as well as the fear of higher prices on products in the production of which they have no part. Italy, in particular, has feared the cartel as a device that tends to make permanent each country's share of the world market—a situation intolerable to a country which, dissatisfied with its present share, seeks to enlarge it considerably.[15]

The Legal Status of Cartels. The rapid growth of German industry after 1870 and the close connection between banks and industry served to make Germany the home of cartels, not only for the domestic market, but for the international market as well. It has been quite generally argued that German law was more favorable to cartels than the laws of other countries. But Professor de Haas questions this: ". . . . it must not be assumed that the laws of the country were particularly favorable to cartels. They were not. Generally speaking, the attitude of the courts did not differ greatly in most of the European countries. They all looked with doubtful, even suspicious, eyes upon these organizations."[16]

A leading decision rendered in 1897, however, laid down a principle quite favorable to combinations:

[14] Plummer, *op. cit.*, pp. 149–50.
[15] *Ibid.*, p. 142.
[16] De Haas, *op. cit.*, p. 435.

When in a branch of industry the prices of a product fall too low, and the successful conduct of the industry is endangered or made impossible, the crisis setting in as a result of such a state of affairs is detrimental, not only to individuals, but also to society as a whole; and it is, therefore, in the interests of the community that improperly low prices should not exist in a certain branch of industry for a long time. The legislative bodies have often, and up to recent times, attempted to obtain higher prices for certain products by the introduction of protective tariffs. Therefore it cannot be simply and generally considered as contrary to the interests of the community when entrepreneurs interested in a certain branch of industry unite with the object of preventing or moderating the mutual underselling, and, as a result of the latter, the fall of prices of their products. On the contrary, when prices are for a long time actually so low that financial ruin threatens the entrepreneurs, their combination appears to be not merely a legitimate means of self-preservation, but also a measure serving the interests of the community. The formation of syndicates and cartels of the kind here discussed is, also, on many sides thought to be a means particularly suited to render great service for the adequate progress of the whole economic life of society, in so far as it prevents uneconomical working at a loss, overproduction, and the catastrophes connected with it.[17]

Under the law of 1923, cartel agreements were recognized as enforceable at law and constituted no offense, even though concerned with production and price control. But all matters growing out of cartels and all questions of danger to the public welfare were placed under the jurisdiction of the Cartel Court. In 1933, the German government was given the authority to disband existing organizations or to order their formation.

French cartels were restricted by the Criminal Code of 1810, which remained in force until 1926. It provided:

All those who, by deliberately spreading abroad false or slanderous facts, by offering a higher price than that asked by the vendors themselves, by association or coalition between the principal holders of the same merchandise or food stuffs, whether with the view to withholding them from sale or with a view to selling them only at a certain price, and all those who, by any fraudulent means shall effect a rise or diminution in the price of food stuffs, or in the sale of public securities, above or below the price determined by natural and free commercial competition shall be punished by an imprisonment . . . . and a fine . . . .[18]

Cartels evaded the law, however, by forming selling agencies for competing producers or by forming one corporation which absorbed others through purchase. After 1926, the combination became lawful, provided fraud and unfair competition were avoided. Surrounded by the cartels

[17] This decision is printed in full in *Report of the Industrial Commission on Industrial Combinations in Europe* (Washington, D.C.: U.S. Government Printing Office, 1901), Vol. XVIII, Appen. V, pp. 197–200.

[18] *Ibid.*, p. 86.

of other countries, the French attitude seems to have been that circumstances forced their use.

Italian law and Italian courts were favorable to combines, considering only those practices illegal that involved force or intimidation or that operated contrary to good morals. At times, the legislature itself compelled the producers of sulphur and oranges to form cartels. Latterly, under Fascism, the cartel was favored when an Italian industry could participate to its advantage. Certain industries were cartelized by government orders.

The Belgian attitude toward cartels hinges on the intent of the agreement. If the primary purpose is to raise prices in the home market, it is then illegal in a criminal sense. Similarly, no agreement seeking to raise prices abroad is legal. But if price control is incidental to the main purpose of regulating output to prevent overproduction, the cartel is serving a legitimate purpose. Belgian's position in the cartel movement has proved far more important than her size would indicate. Her location and the high state of industrialization are responsible. This has caused someone to remark that an international cartel in the heavy industries is only as strong as its Belgian link.[19]

There are other Continental countries that have played some part in cartel development or cartel membership. Hungary had no law on the subject until 1931. While this condition prevented state action against the cartel, it also barred enforcement of the underlying agreement. After 1931, the cartel became subject to registration with the Minister of Industry and enjoyed full legal status. Austrian law has barred unfair competition, combines primarily to raise prices, or other acts detrimental to consumers. Court decisions, moreover, were not favorable to cartels. Norway has recognized the cartel but has exerted a degree of state control over its activities.

The United Kingdom's attitude was at first much like that of the United States. Common law was opposed to combination, and the legislature seemed to ignore its growth. In a leading case, decided in 1892, Lord Halsbury said: "I am of opinion . . . that the whole matter comes around to the original proposition, whether a combination to trade and to offer, in respect of prices, discounts and other trade facilities, such terms as will win so large an amount of custom as to render it unprofitable for rival customers to pursue the same trade is unlawful, and I am clearly of the opinion that it is not."[20] In Dr. Plummer's opinion, "The State's attitude in Great Britain has traditionally been one of neutrality towards industrial combines; but in recent years British governments have shown themselves favorable to combination and closer association in particular

[19] Plummer, *op. cit.*, p. 129.

[20] *Report of Industrial Commission*, p. 37.

industries . . . . where public interests seemed likely to be better served thereby."[21]

In Japan, whose legal code was borrowed from Germany, the cartel was recognized as legal. Under the Major Industry Control Law of 1931, when more than half of the firms in such an industry reached an agreement to regulate production and selling activities, they could register as an I.C.L. organization. If more than two-thirds expressed the desire to combine, then the agreement could be made binding on all the firms in the industry, whether members or nonmembers. Public interest, however, was recognized as the check on cartels and the Minister of Commerce could dissolve them.[22]

Cartels and the Tariff. Our Industrial Commission at the opening of the century considered the possible relationship of cartels and the tariff. The conclusion reached in the case of France, is likewise applicable to the other Continental countries: "There is perhaps no reason for saying that the . . . . tariff, on the whole a high protective tariff, has been the cause of the formation of the industrial combinations that exist; but, on the other hand, there can be no doubt that the tariff has enabled the combinations to exert somewhat more power than they otherwise could have done."[23]

Professor Haberler gives an authoritative statement on the relationship in his recent study:

> Perhaps it would be an exaggeration to say that *every* cartel and *every* trust is the child of a tariff, but beyond doubt the *majority* of cartels hold together only because of a protective tariff. It is far more easy for the few producers of a small country, sheltered by duties, to act together than it is for the numerous producers of a large economic region. If all tariffs were removed tomorrow, very many entrepreneurs would lose the monopolistic position which each today possesses in his own line and country, while most of the existing cartels would vanish or would cease to exercise any power. For without a tariff each producer has only the natural protection of transport costs; as soon as his price exceeds the level at which foreign producers can profitably sell in his country they will commence to do so.
>
> These views are confirmed a thousandfold by experience. Cartels have developed much less in England than on the Continent. This is partly due to such factors as the proverbial individualism of the English entrepreneur, but it is largely due to the absence of protective tariffs. Nor is it a mere coincidence that the rapid growth of cartels in Germany began just after she adopted Protection in 1879.[24]

---

[21] Plummer, *op. cit.*, p. 143.
[22] De Haas, *op. cit.*, p. 437.
[23] *Report of the Industrial Commission*, p. 86.
[24] Haberler, *op. cit.*, pp. 324–25.

It is also true, as Dr. Plummer observes, that tariffs are more permanent than cartel agreements and that it is easier to retain a tariff than to regain it after once surrendering it. The League of Nations committee has commented in this connection: "In some cases, indeed, the efforts of producers to obtain increased protection in their own country are redoubled as soon as the creation or renewal of an international cartel arises."

John A. Hobson stated the relationship as he saw it in these words:

. . . . a protective tariff can only create or facilitate a trust in cases where the conditions for an effective combination on a national scale has already been ripened by other forces making for monopoly. Upon the whole it would be safer to describe the Tariff as the foster-mother than the mother of trusts. By feeding them at the expense of the body of consumers, and protecting them against invasion of the home market by foreign competition, it enables them to maintain their monopoly and to render it more profitable.[25]

There are, of course, some monopolies that are due to other circumstances, wherein the tariff is not a contributory cause. There are some local monopolies when transportation costs serve to keep out competitive goods. There are also international monopolies based on possession of a scarce raw material.

Aids and Incentives to Cartel Formation. We have already said the cartels have been formed as a result of maladjustment between productive facilities and market demand; price fluctuations; government encouragement, for sake of prestige, revenue, control of resources; wrongly placed political frontiers; potential profits; and economies in production or distribution. International combines are also facilitated by the presence of national combines and by the genius and drive of "those industrial magnates, like Kreuger and Stinnes, whose insatiable itch for wealth and power leads them to acquire a vast assortment of 'interests' both inside and outside their own countries."[26]

Kreuger and the Match Monopoly. Since, in discussing domestic monopolies, some attention is always given to personalities, it may be of interest to say something of Ivar Kreuger, his methods, and his match monopoly. Kreuger was born in a small Swedish town in 1880[27] and attended schools and the Technical University in Stockholm until he was twenty years old. For the next seven years he went from one country to another and worked at odd jobs—in New York City for a real estate firm, in Illinois on a railroad job, in Mexico as a bridge-builder, in South Africa, and elsewhere. Upon his return to Stockholm in 1907, he formed a partner-

[25] *The Evolution of Modern Capitalism* (London: Walter Scott Publishing Co., Ltd., 1916), p. 196.

[26] Plummer, *op. cit.*, p. 63.

[27] This account, except where noted otherwise, is taken from Gustavus Myers' startling book, *America Strikes Back* (New York: Ives Washburn, Inc., 1935), pp. 305–11.

ship with Paul Toll in an engineering enterprise. Just before the first World War, the firm became interested in the Swedish match industry, fought a rival group, and within four years had brought the groups together and dominated them.[28] In the fashion of "Major Amos Hoople," Kreuger is pictured as holding a box of matches in his hand and showing how, by increasing the price one-eighth of a cent on each box, he could make millions of dollars. He formed the match manufacturers of Sweden into the Swedish Match Company and linked it with Kreuger and Toll. He controlled 260 match factories in Sweden, Norway, Poland, San Domingo, Peru, Japan, India and other countries. His other holdings were enormous—eight large iron ore, pulp, and other natural-resource corporations in Sweden; farm mortgage companies in Sweden, France and Germany; more than fourteen telephone and telegraph companies[29] in six European and in various South American countries; and banking concerns in Sweden, Amsterdam, Paris and other cities. He also owned gold, silver, and copper mines. He loaned $330,000,000 or more to fourteen European and one South American country in return for match monopoly rights. "He was a convincing talker and a perfect actor, who thoroughly understood the power of apparent guilelessness to radiate confidence among bankers. It was in 1922 that he began the sale of his company's securities to English financiers. With equally conspicuous success he palmed off great batches of securities upon the bankers of other countries, both European and American."

He borrowed $15,000,000 from United States bankers without any security. He sold $150,000,000 of his securities over here; and, in undertaking to sponsor it, a leading investment house apparently asked no questions about him. Men like Percy Rockefeller "relied implicitly" on Kreuger's word. The depression of 1930–31 was severe, but none expected the news of Kreuger's suicide in Paris in 1932. His immediate reason seems to have been the pressure of a debt of $11,000,000. Investigation showed that over $750,000,000 had been invested in his ventures, of which one-third came from the United States. Some of his assets proved imaginary, some had been listed in duplicate. From banks he had twice borrowed $50,000,000 on the same block of German bonds, stealing them from the International Match Corporation, of which he was president, and depositing them to his own credit in a Stockholm bank. "In his private room at the Match Trust offices the Stockholm police found an assortment of rubber stamps giving facsimile signatures of public officials and prominent persons. Seemingly, whenever there came into his possession any signature he thought might prove useful, he caused a rubber stamp to

[28] Heaton, Herbert, *Economic History of Europe* (New York: Harper & Bros., 1936), p. 638. A chart of the Kreuger and Toll interests appears on p. 639.

[29] Kreuger manufactured telephones as well as operated them.

be made." Both the Italian and Spanish governments denied that the match monopolies Kreuger claimed in those countries, valued at $80,000,000, existed. The total claims against the estate and Kreuger concerns in 1935 came to about $700,000,000. His personal debts came to $179,000,000.

The International Match Combine grew out of the Swedish match firms by means of horizontal mergers and then by holding companies, which in turn controlled factories in forty-three countries and accounted for 80 per cent of the world's matches. In addition to the making of matches, the combine enjoyed a near-monopoly in match making machinery, pulp and sulphur production. Its firm in the United States, the International Match Corporation, was founded in 1923 and owned seventy-five match manufacturing plants.

Obstacles to Cartels. Cartels are curtailed by war, depression, laws, internal friction, competition from nonmembers, difficulties arising out of size, distance of units, national policies, and the personality of leaders. National animosities and jealousies enter the division of markets and the determination of quotas. One writer has summarized the hindrances when he says, "All the obstacles to the formation of national combines hinder, often still more obstinately, the formation of international combines."[30] The weakness or strength of a cartel also devolves upon the commodity on which it is built. An agricultural raw material might prove to be a weak basis, while another raw material might lose out to a synthetic one. This happened to the natural nitrates of Chile. The Chilean industry is but a weak part of the international nitrogen cartel, which is dominated by synthetic nitrogen. The most recent agreement underlying this cartel was to run for three years, from 1938 to 1941. The war, however, put an end to the arrangement. The field of synthetic materials probably will be of even greater importance in future decades; and, while the materials probably will be controlled by cartels themselves, they will endanger others.

How a Cartel Operates. Cartels operate through various arrangements. Usually the market in which they operate is divided between them either through reservation of certain portions for certain producers or else in terms of the total amount each producer may export. The International Steel Agreement, for example, provided:

Article 5. Every month each country's actual net production of crude steel during that month shall be ascertained, in relation to the figures indicated by the quotas.

Article 6. If the quarterly production of a country exceeds the quota which was fixed for it, that country shall pay in respect of each ton in excess a fine of 4 dollars, which shall accrue to the common fund, in addition to the payment

[30] Plummer, *op. cit.*, p. 129.

(of 1 dollar monthly for each ton of crude steel actually produced and paid by each country).

Article 7. If the production of any country has been below the quota allotted to it, that country shall receive in compensation from the common fund the sum of 2 dollars per short ton.

The tonnage entitling to compensation may not, however, exceed 10 per cent of the quota fixed for the quarter in question. If a shortage of 10 per cent or more below the quota fixed continues during several successive quarters, the tonnage entitling to compensation shall be reduced by two per cent for each successive quarter, so that in the second quarter of such shortage of 10 per cent or more the compensation paid shall not exceed 8 per cent, and in the third quarter it shall not exceed 6 per cent, and so on.

In the event of *force majeure*, the general meeting of the several groups shall decide by a majority vote the amount of the compensation payable.

Products Subject to Cartel and Other International Controls. Some of the products and classes of products that have been the subject of cartel or other international agreement are listed below. Although not exhaustive, this list will serve to show the importance of such controls.

Acetic acid
Agricultural machinery
Aluminum
Aniline oil
Artificial silk
Asbestos
Ball bearings
Bismuth
Borax
Cacao
Canned fish
Carbide
Cellophane
Cellulose
Cement
Chestnut extract
Chocolate
Coal
Coke
Condensed milk
Copper
Copper wire
Currants
Cyanimide
Diamonds
Dyes
Embroidery
Enamel ware
Ferromanganese
Ferrosilicon
Flax
Galvanized steel
Glass bottles
Glauber salt
Glue
Gramophones
Graphite
Incandescent lamps
Iodine
Iron, pig
Iron, scrap
Kraft paper
Lead
Leather
Linoleum
Lumber
Machine wire
Magnesia
Magnesite
Marble
Matches
Mercury
Mirror glass
Nails
Nickel
Nitrates
Nitrogen
Oil
Packing paper
Porcelain
Potash
Powder
Quebracho (tanning extract)
Quinine
Rails
Rayon
Rods
Rolled wire
Rubber
Silk goods
Silk ribbon
Steel
Sugar
Sulphur
Sulphuric acid
Superphosphate
Tea
Tin plate
Tin smelting

Titanium	Wagons	Wood screws
Tobacco	Watches	Wool
Tubes	Wire	Zinc
Uranium	White lead	

THE WEBB EXPORT ASSOCIATIONS

The Legal Status of Agreements in the United States. The common law in the United States was the same as that of England and afforded some remedy against agreements in restraint of trade. But since our federal government has no common law, there was no federal law on the subject until the Sherman Antitrust Act was passed in 1890. The language of that act has become quite familiar through the years. "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal." The law also declared the act of monopolizing or attempting to monopolize such trade to be a misdemeanor.

The Wilson Tariff of 1894 also contained an antitrust provision. It declared illegal, void, and contrary to public policy "every combination, conspiracy, trust, agreement, or contract" concerning the importation of goods into the United States when such combination, etc., "is intended to operate in restraint of lawful, or free competition in lawful trade or commerce, or to increase the market price in any part of the United States or any article or articles imported or intended to be imported into the United States, or of any manufacture into which such imported article enters or is intended to enter." Such action was declared to be a misdemeanor and subject to punishment. Furthermore, the property owned under such an agreement was to be forfeited to the United States. Anyone damaged by such illegal action had the right to sue and recover "threefold the damages by him sustained, and the costs of suit, including a reasonable attorney's fee."

In the Panama Canal Act there is also an antitrust provision, which the authors of *The Public Control of Business* typify as one "that may well stand as the record for legislative imaginativeness"—namely, that no vessel owned or operated by a company violating antitrust laws shall be allowed to use the Panama Canal. "Combines," comment these authors, "are condemned to the arduous trip around the Horn. Thus, in the sea journey from New York to San Francisco, competition is ceded a clear advantage of more than nine thousand miles."[31]

The Federal Trade Commission Act of September 26, 1914, forbade the use of unfair methods of competition and also authorized the commission "to investigate, from time to time, trade combinations in and with

[31] Keezer, Dexter M., and May, Stacy, *The Public Control of Business* (New York: Harper & Bros., 1930), pp. 27–28.

foreign countries where associations, combinations, or practices of manufacturers, merchants, or traders, or other conditions, may affect the foreign trade of the United States, and to report to Congress thereon, with such recommendations as it deems advisable."

The Clayton Act of October 15, 1914, applied to cartels in so far as it forbade stockownership by one company in another "where the effect of such acquisition may be to substantially lessen competition between the corporation whose stock is so acquired and the corporation making the acquisition, or to restrain such commerce in any section or community, or to tend to create a monopoly of any line of commerce."

One of the first acts of the Federal Trade Commission was to inquire into foreign practices that might affect United States trade. On June 30, 1916, the commission presented its report to Congress, *Cooperation in American Export Trade*, a two-volume work, compiled through hearings, questionnaires, and field work. The report was a very strong argument for some relief for United States exporters. It recited the degree in which combination had developed either for internal or external trade in Germany, Italy, Switzerland, Holland, Sweden, Belgium, Japan, France, Italy, and other European and Latin-American countries. It pointed out that competing United States sellers frequently had to sell to these buying combinations or cartels. It saw certain advantages of co-operation in United States export trade—more equal terms, a better opportunity for smaller producers and manufacturers, a saving in distribution costs, profitable export prices, stronger selling and advertising campaigns in opening new markets, better credit terms, greater stability in markets, as well as certain domestic benefits such as a steadier employment for labor.

The Recommendations of the Commission. The commission, although recognizing certain dangers in permitting export agreements, felt, nevertheless, that they could be forestalled by careful wording of the law and by supervision by the commission after the associations were formed. Except for these reservations, the report states:

> The Commission believes that American exporters should be enabled to compete in foreign markets on more nearly equal terms with foreign competitors. It also believes that the smaller manufacturers and producers, so far as they desire, should be enabled to share in such foreign business. It is convinced that for these purposes cooperation in export trade should be permitted. It knows that doubt as to the application of the antitrust laws now prevents any marked development of such cooperation. It does not believe that Congress intended by the antitrust laws to prevent Americans from cooperating in export trade for the purpose of competing effectively with foreigners where such cooperation does not restrain trade within the United States and where no effort is made to hinder American competitors from freely engaging in export trade. It is not reasonable to suppose that Congress

meant to obstruct the development of foreign commerce by forbidding the use in export trade of methods of organization which do not operate to the prejudice of the American public, which are lawful in the countries where the trade is to be carried on, and which are necessary if greater equality of opportunity is to be afforded Americans in meeting foreign competitors. The Commission, therefore, respectfully recommends that Congress enact declaratory and permissive legislation to remove the present doubt as to the law and to establish clearly the legality of such cooperation.

The Export Trade Act of 1918. The Export Trade Act, sponsored by Senator Atlee Pomerene and Representative Edwin Y. Webb, dates from April 10, 1918. It has never been amended.[32] Its purpose is expressed in its title: "An Act to Promote Export Trade, and for Other Purposes." Toward this end the act exempts from the Sherman and Clayton Acts "an association entered into for the sole purpose of engaging in export trade and actually engaged solely in export trade, or an agreement made or act done in the course of export trade by such association." Such an association, however, was not to restrain trade within the United States nor to interfere with the export trade of any domestic competitor. Finally, no agreement was to be entered that would enhance or depress domestic prices for the commodities of the class exported, substantially lessen competition, or restrain trade within the United States. The act also broadened the jurisdiction of the Federal Trade Commission Act to cover unfair methods of competition used in export trade, even though such acts were committed outside of the United States.

Export associations were placed under the jurisdiction of the Federal Trade Commission. Within thirty days after organization, such an association was to file with the commission all pertinent papers, bylaws, and, if incorporated, a copy of its certificate of incorporation. In addition to an annual report, each association was to furnish "such information as the Commission may require as to its organization, business, conduct, practices, management, and relation to other associations, corporations, partnerships, and individuals."

The term "export trade" was clearly defined by the law—"solely trade or commerce in goods, wares, or merchandise exported, or in the course of being exported from the United States or any Territory thereof to any foreign nation." It did not include "the production, manufacture, or selling for consumption or for resale, within the United States or any Territory thereof, of such goods . . . ."

The general nature of the law has enabled the export associations to assume various forms. There is no typical association. Some have become corporations; some have been organized on a nonprofit basis, working at

[32] The Robinson-Patman Act of June 19, 1936, and other legislation has not modified it.

cost and paying all profits to the participating exporters. Some have covered the whole industry; some, portions of the industry. Some have covered all the products of an industry; some, just one product or region. There is no standard practice regarding the location of headquarters. Some are located in the locality of production; and some are found in seaport communities. Some have branch offices located here and abroad. There are even different classes of membership—"full," "limited"—and there are different divisions and groupings.

In so far as they can be classified, the Federal Trade Commission finds three general types: (1) that in which the association serves as a central selling agent for all of the members, taking orders, negotiating sales, and handling the shipment of the goods; (2) that in which the association directs the exportation of its members and retains certain functions in export trade, but with the orders being placed by agents already established by the members abroad (in this case the export department of one member may handle foreign orders for several members); and (3) the export company formed for the purpose of buying the members' products and reselling them abroad at terms agreed upon by the members. The first and second methods of selling may be combined, the members using their established agents for some markets and the association sales office for new markets or those in which the trade is not well developed.[33]

The commission has divided the products exported by the associations into five general classes:

1. Metal and metal products: Copper, iron and steel, metal lath, zinc, machinery and implements, foundry equipment, locomotives and railway equipment, electrical apparatus, signal apparatus, tools, pipes, valves, and screws
2. Products of mines and wells: Sulphur, phosphate rock, coal and coke, petroleum products, carbon black
3. Lumber and wood products: Pine, fir, hardwood, redwood, walnut, naval stores, plywood doors, furniture and office equipment, wood pipe, shooks, wooden tool handles, clothespins
4. Foodstuffs: Canned milk, meat products, sugar, flour and other grain products, rice, sardines, canned salmon, peas, canned vegetables, and fruit (fresh, dried, and canned)
5. Other manufactured products: Paper, textiles, rubber products, abrasives, cement, fertilizer, paint and varnish, insecticides, alcohol, tanning materials, soda pulp, soda ash, alkali, other chemicals, cotton linters, clothing, buttons, and general merchandise[34]

[33] Federal Trade Commission, *Practice and Procedure under the Export Trade Act* (Washington, D.C.: U.S. Government Printing Office, 1935), p. 4. This pamphlet has been used throughout these pages.

[34] *Ibid.*, pp. 6–7.

Functions of the Associations. The Federal Trade Commission has reported the following functions of the export associations:

1. Serving as export sales agent for the member companies, in all foreign markets or in certain markets to be agreed upon, for all goods exported by the members or for only certain of their products
2. Purchasing the members' products for resale in foreign markets, under terms and conditions agreed upon by the members
3. Employing agents and directing the agents of the member companies, maintaining offices, in this country and abroad, promoting conferences and agreements in export trade
4. Obtaining and selling goods of producers outside of the association, in order to fill the association's export orders
5. Exploitation of members' products abroad, especially introducing them in new markets. Joint advertising and use of joint trade marks. Promoting sales for the members' brands and patented goods
6. Agreeing upon price for export terms and sales policies in foreign markets, and adopting uniform forms of contracts. In some cases only a minimum price is agreed upon; in others members are free to quote price but agree to report to the association any change in price
7. Dividing the export business of the association among the members in predetermined proportions; for this purpose a quota system may be agreed upon and the orders allotted in accordance therewith
8. Recording sales of the members' products, in export trade, keeping copies of invoices and other documents; this is important when a quota plan is adopted
9. Standardizing products for export and improving the quality of the goods. Maintaining inspection service, employing claim agents, and settling disputes over export sales
10. Establishing rules and regulations for packing and shipping the goods in export
11. Arranging for freight rates, cargo space, and shipping dates; consolidating the shipments of the members; taking out insurance and shipping documents
12. Providing for storage during transit and warehousing abroad
13. Collecting and disseminating trade information as to market conditions abroad, foreign credits, stocks available for export by the members, the exchange situation, tariff requirements, shipping rules and regulations, foreign laws that affect our foreign trade, and other data of value to American exporters[35]

Some Reasons for Dissolution. With these obvious advantages in mind, the questions may be raised: Why have not many more associations been formed, and why have some dissolved? The first question may be answered in terms of the expense involved, the fear of losing trade secrets,

[35] *Ibid.*, p. 5.

the desire to keep brand identity, fear that foreign trade is not profitable, business rivalry and unwillingness to co-operate, ignorance and greed, virtual control by a few companies, and belief that other companies obtain the advantages while a few "hold the umbrella."[36] The commission's report to the T.N.E.C. offers the following answer to the second one.

The chief reasons, of course, have been connected with depression conditions during the past 10 years; difficulty in meeting exchange requirements, in financing shipments, and in operating under uncertain credit conditions. Prices abroad have been consistently lower than in this country, on most products; some companies were unwilling or unable to sell at such low prices, and went out of the export business for that reason. Some groups had customers abroad who were willing to pay the price but the goods could not pass under import quota regulations, or it was impossible to get American dollars abroad, to pay for the exports. Blocked accounts have caused serious inconvenience and loss.

In some cases associations organized to meet special conditions went out of business when their objectives were accomplished. This was true of groups formed to sell to the Allies during the World War; and some that served the purpose of disposing of war stocks after the war closed. It has also been true of a few associations, such as the Nogales Garbanzo Association which disposed of a certain accumulation of chick peas and then discontinued its operation. Some of the lumber groups went out of business because the source of supply was exhausted.

Some associations dissolved in order to effect new organization with another alinement or a different method of operation. In a number of instances after an association became dissolved some of its members were loath to lose the benefits of cooperation and therefore joined or formed another group.

In some cases the association was not successful in developing a foreign market, due to lack of demand or the competition of cheaper foreign goods. This was true of the button associations which found they could not compete with the Japanese product.

If sales were made to foreign governments, after the World War, there was at times difficulty in obtaining cash in payment. Some associations were unwilling to accept bonds or other Government securities in lieu of cash, and therefore did not make sales. Others accepted securities and suffered loss upon default in payment.

In the case of some foodstuffs, the post-war policy of foreign governments to develop production to the point of self-sufficiency resulted in tariffs and other import restrictions, with a consequent lessening of purchases from this country. In some instances this led to the building of American plants abroad, which compensated for loss on exports.[37]

---

[36] These points were made in answers to a questionnaire sent out by Dr. Paul Brinker while a graduate student in 1939.

[37] "Export Prices and Export Cartels," *Investigation of Concentration of Economic Power*. (Washington, D.C.: U.S. Government Printing Office, 1940), Monograph No. 6, p. 145.

Export Association Statistics. From 1918 to January, 1940, there were 120 export associations established, representing 2,074 member-companies.[38] Only 4, organized in 1918, remained in existence throughout this period. These, together with 7 others were active for 20 years. Twenty-five have been functioning for 10 years. In February, 1940, there were 44 in operation. They represented 434 member-companies. Table 58 shows the number of associations and their total exports for the years 1920–39, as well as the exports classified into five groups.

TABLE 58

NUMBER OF EXPORT ASSOCIATIONS BY CLASSES AND TOTAL*

Year	No. of Assns.	Metals and Metal Products†	Products of Mines and Wells‡	Lumber and Wood Products§	Foodstuffs‖	Other Manufactured Products**	Total
1920	43	$152,000,000	$ 8,000,000	$17,000,000	$ 8,000,000	$36,000,000	$221,000,000
1921	48	67,557,000	5,556,000	9,894,000	5,839,000	2,334,000	91,180,000
1922††	56	. . .	. . .	. . .	. . .	. . .	. . .
1923	55	68,227,000	10,500,000	26,000,000	32,400,000	16,373,000	153,500,000
1924	50	43,992,000	9,885,000	32,700,000	35,300,000	18,123,000	140,000,000
1925	50	43,287,000	14,279,000	38,000,000	34,000,000	27,934,000	165,500,000
1926	51	56,500,000	14,300,000	35,700,000	35,000,000	59,000,000	200,500,000
1927	55	180,000,000	15,200,000	35,400,000	53,000,000	87,900,000	371,500,000
1928	56	267,600,000	17,500,000	28,200,000	80,400,000	82,500,000	476,200,000
1929	57	271,000,000	270,000,000	26,000,000	67,100,000	90,000,000	724,100,000
1930	57	208,000,000	315,000,000	22,500,000	40,500,000	75,000,000	661,000,000
1931	57	100,000,000	73,000,000	35,400,000	32,500,000	70,100,000	311,000,000
1932	51	21,000,000	56,000,000	8,000,000	24,000,000	35,000,000	144,000,000
1933	50	29,000,000	44,000,000	8,000,000	28,000,000	34,000,000	143,000,000
1934	45	27,000,000	53,000,000	8,500,000	21,300,000	36,000,000	145,800,000
1935	43	20,250,000	55,875,000	9,450,000	16,500,000	35,610,000	137,685,000
1936	45	40,507,335	40,780,283	8,533,374	21,250,433	38,225,100	149,296,525
1937	45	93,958,850	32,580,219	7,456,922	19,921,343	43,958,498	197,875,832
1938	44	67,000,000	20,920,491	5,881,028	21,487,274	45,956,027	161,244,820

* Federal Trade Commission Report to T.N.E.C., pp. 133–35.
† Copper, iron and steel, scrap, metal lath, zinc, machinery and implements, foundry equipment, locomotives and railway equipment, electrical apparatus, signal apparatus, tools, pipes, valves, and screws.
‡ Phosphate rock, coal and coke, sulfur, petroleum and products, carbon black, potash
§ Pine, fir, hardwood, red gum, redwood, walnut, naval stores, plywood, doors, furniture and office equipment, wood pipe, barrel and box shooks, wooden tool handles, clothespins, pencils (pencil association newly organized, exports not yet included in totals).
‖ Canned milk, meat products, sugar, flour, corn, and other grain products, rice, sardines, canned salmon, peas and other canned vegetables, fruit (canned, fresh and dried)
** Paper, rubber products, abrasives, cement, glass, cotton linters, webbing and other textiles, clothing, buttons, fertilizer, paint and varnish, insecticides, alcohol, tanning materials, soda pulp, soda ash, alkali, and other chemicals, and general merchandise.
†† Figures not compiled in 1922.

In terms of our total domestic exports, the export associations have not occupied a dominant position. Their shares have varied since 1930 from 14 per cent in that year to only 4 per cent in 1938. The reports given by the 43 associations on June 30, 1939, showed that 10 associations, representing 67 companies (metals and metal products) were the most active and accounted for $67,000,000. Ten associations (93 companies selling miscellaneous manufactures) exported $45,956,027 worth of goods; 9 associations, selling for 101 companies engaged in foodstuffs, enjoyed sales

[38] For a complete list, together with the dates of the associations, consult the work just cited.

of $21,487,274; 5 representing 24 companies (products of mines and wells) totaled $20,920,941; and 9 associations (140 mills) sold lumber and wood products amounting to $5,881,028.[39]

Participation by United States Producers in International Cartels. Although the law dealing with export associations dates from 1918, our United States producers took some part in the business of cartels prior to that date. How far this co-operation went and how much of it was transacted under the guise of gentlemen's agreements must remain conjectural. Certainly the question of legality hovered in the background and prevented too great a participation. It is, therefore, of interest to consider one cartel arrangement which is a matter of record for some years back. United States producers joined the International Rail Makers' Association in 1904[40] and retained membership until its dissolution in 1914. The European manufacturers revived the cartel in 1925 under the name, "European Rail Makers' Association." The Steel Export Association of America, a Webb Export Association, formed as a corporation under the laws of New York State in 1928, joined the cartel in 1929, as well as the International Tinplate Association in 1934, and had understandings with the foreign manufacturers of tubular products. The Rail Makers' Association suspended in September, 1939, because of the war, as did the other cartels. In form, this corporation had a board of directors made up of delegates of the participating companies who were also the stockholders.

The Steel Export Association of America included in its membership at one time or another the following companies:[41]

The Armco International Corporation, Middletown, Ohio
Bethlehem Steel Export Corporation, New York
Central Tube Company, Pittsburgh
Inland Steel Company, Chicago
Jones and Laughlin Steel Company, Pittsburgh
McKeesport Tin Plate Company, McKeesport, Pa.
The Newport Rolling Mill Company, Newport, Ky.
Pittsburgh Steel Company, Pittsburgh
Pittsburgh Steel Products Company, Pittsburgh
Republic Iron and Steel Company, Youngstown, Ohio
Republic Steel Corporation, Youngstown, and Cleveland, Ohio
South Chester Tube Company, Chester, Pa.
Spang, Chalfant and Company, Pittsburgh, Pa.
United States Steel Products Company, New York
Weirton Steel Company, Weirton, W. Va.

[39] *Commerce Reports*, April 13, 1940, p. 341.
[40] See Hexner, Ervin, "American Participation in the International Steel Cartel," *Southern Economic Journal*, Vol. VIII, No. 1 (July, 1941), pp. 54 ff.
[41] "Export Prices and Export Cartels," pp. 218–19.

Wheeling Steel Corporation, Wheeling, W. Va.
The Youngstown Sheet and Tube Company, Youngstown, Ohio

In joining with foreign manufacturers, the Steel Export Association had to conform to the provisions of the Webb Export Law in so far as the domestic market was concerned; but they also had to work out export quotas, premiums, apportionment of expenses, etc. Other groups were equally subject to the laws of their respective countries. The United States group agreed not to sell in the interior markets of the European national groups but could not demand (because of the Webb Law) any similar promise for the United States market.[42] Beginning in January, 1938, the United States group began a much closer co-operation with the cartel. The year 1936 was selected as the quota base, but the exports of all United States producers (members as well as nonmembers) were included. This, in effect, made the Export Association responsible for all exports and subject to penalties for exceeding the quotas, even though none of its members was responsible.

To the question of whether international combinations of the cartel type, i.e., pure marketing units of independent entities as contrasted to combinations of enterprises tied together by intercorporate arrangements, proved successful in administering prices and controlling the export steel market, one writer answers in the affirmative, although recognizing that the actual time of the United States participation in the later international steel agreements was only eighteen months.[43]

World War II and Cartels. The attitude of the people of this country toward cartels during the two world wars has been very different. During World War I, businessmen talked longingly of the advantages of cartels and looked upon the Sherman Antitrust Law as a barrier to success in world trade. They succeeded in having the Webb-Pomerene Act passed. In effect, we had declared that we believe in the competitive principle at home but in employing monopolistic methods in the international market. The success of the export associations, however, has not come up to expectations, but the immunity granted by the law enabled United States firms to become affiliated with cartels. In 1939 there were 179 international cartels. Of these, 109 included United States firms. Of the former number, 133 were engaged in manufacturing, 32 in the production of minerals, 8 in agricultural products, and 6 in services.

Since 1939 our Department of Justice has become very much concerned with cartels. In part this was due to the war cloud that was hanging over the world at that time. We did not realize the extent of cartel control until our pre-war and then war purchases revealed the stranglehold of

[42] Hexner, *op. cit.*, p. 72.
[43] *Ibid.*, p. 79.

the cartel. The Department of Justice instituted about forty proceedings against cartels within a few years. Among the commodities involved were petroleum, synthetic rubber, plastics, dyestuffs, nitrates, explosives, pharmaceutical products, photographic materials, electric light bulbs, fluorescent lighting equipment, magnesium, molybdenum, titanium, tungsten carbide, aircraft accessories and instruments, military optical instruments, flexible metal hose, and quebracho.

One of the more recent actions has been against twelve Swedish, British, United States, and Canadian match companies. The government has charged that one alleged cartel activated by the late Ivar Kreuger had caused a world-wide match shortage, had operated to throttle United States participation in foreign markets, had interfered seriously with the production of chlorate of potash which is essential in the manufacture of ammunition and flares, and had kept from this country the "everlasting match." The latter, manufactured in Switzerland and Holland, can be lighted and blown out about one hundred and fifty times and has been nicknamed "the poor man's cigarette lighter."

Other Governmental Inquiries. Other evidence against cartels has been collected by the Special Committee to Investigate the National Defense Program, the Committee on Patents, the Gillette Committee, and the War Mobilization Committee. The State Department has likewise gone into the subject because of the significance of the cartel in the postwar scene. President Roosevelt addressed a letter to Secretary of State Hull on September 6, 1944:

DEAR MR. SECRETARY:

During the past half century the United States has developed a tradition in opposition to private monopolies. The Sherman and Clayton Acts have become as much a part of the American way of life as the due process clause of the Constitution. By protecting the consumer against monopoly these statutes guarantee him the benefits of competition.

This policy goes hand in glove with the liberal principles of international trade for which you have stood through many years of public service. The trading agreement program has as its objective the elimination of barriers to the free flow of trade in international commerce; the antitrust statutes aim at the elimination of monopolistic restraints of trade in interstate and foreign commerce.

Unfortunately, a number of foreign countries, particularly in continental Europe, do not possess such a tradition against cartels. On the contrary, cartels have received encouragement from some of these governments. Especially is this true with respect to Germany. Moreover, cartels were utilized by the Nazis as governmental instrumentalities to achieve political ends. The history of the use of the I. G. Farben trust by the Nazis reads like a detective story. Defeat of the Nazi armies will have to be followed by the eradication of these weapons of economic warfare. But more than elimination of the political activi-

ties of German cartels will be required. Cartel practices which restrict the free flow of goods in foreign commerce will have to be curbed. With international trade involved, this end can be achieved only through collaborative action by the United Nations.

I hope that you will keep your eyes on this whole subject of international cartels, because we are approaching the time when discussions will almost certainly arise between us and other nations.

Very sincerely yours,
FRANKLIN D. ROOSEVELT

Some Government Allegations. The Attorney-General of the United States appearing before the military affairs' subcommittee charged that the German cartels operated as part of the German government and utilized their various commercial agreements with firms in this country to restrict our trade, to acquire information from our firms, to conduct espionage upon us, and to establish propaganda throughout the world.[44] Some of the cases that he cited were these: Carl Zeiss, forbidden by the Versailles Treaty to manufacture military optical instruments, continued to do so through a Dutch subsidiary, Nedinsco. In 1921, the Zeiss interests entered a cartel arrangement with Bausch & Lomb providing for the division of world markets. The United States firm was not to sell military instruments directly or indirectly to other countries except with the permission of Zeiss. Bausch & Lomb was required to supply Zeiss with detailed royalty statements from which Zeiss was able to determine the quantities and types of instruments purchased by the armed forces of the United States. These instruments, such as periscopes, range finders, height finders, bore sights, bomb sights, telescopes, torpedo directors, gun sights, and searchlight lenses, served as clues to the number of planes, submarines, and other war instruments under construction in this country.

Assistant Attorney-General Wendell Berge charged that Bausch & Lomb was eager to visit the Zeiss plant but found the latter unco-operative, with the rise of Hitler. Nedinsco repeatedly sought information from Bausch & Lomb as to the type of military instruments under trial in the United States service.

Mr. James S. Martin, Chief of the Economic Warfare Section of the Department of Justice, testified regarding the activities of Japanese trading companies. Japan was able to get the technical information on some processes for producing 100-octane aviation gasoline before such information was generally available to firms in this country. In at least one case, as late as June, 1941, a Japanese firm tried to find out the amount of our oil and gasoline shipments to Pearl Harbor! Seemingly, the surprise attack on Pearl Harbor in December of that year was no surprise to Japan. These companies got information for their government either through the

[44] This account and that which follows is based on information in the *Congressional Record.*

direct purchase of technical data or through observations during business visits. The Japan Gasoline Company obtained three options in 1938 from the Universal Oil Products Company, a research organization. Under one of these, the Japanese company was to have unlimited rights to all of Universal's processes in the entire petroleum field. The option was taken up in the fall of 1939. Representatives of the Japan Company and of the Japanese army and navy spent four months in Universal's testing plants and laboratories. Following the moral embargo against Japan, December 20, 1939, the Universal Company informed the Japan Gasoline Company that all relations under the 1938 option would be suspended. The Japan Company thereupon filed suit for $10,000,000. The war broke before the case came to trial; but the size of the damages sought suggested the importance with which Japan regarded these research findings.

The firm of Krupp, Germany's main source of arms and ammunition, likewise avoided the Versailles Treaty by transferring its patents, licenses, and secret processes to a Swedish manufacturer, Bofors, for an exchange of stock. Krupp also entered an agreement with the General Electric Company to restrict the sale of tungsten carbide. The result was that this material sold for $50 in Germany, while the price in this country was as high as $425. It seldom went below $225. After action was taken under the antitrust laws, the price fell as low as $27 in 1942.

Senator Kilgore charged during the course of these hearings that our navy had been using a 40-millimeter gun for which we were paying royalties to Sweden as a result of cartel tie-ups.

It was charged, too, that the I. G. Farbenindustrie (*Interessengemeinschaft Farben-Industrie, Allgemeine Gesellschaft*—"the community of interests in the dye industry organized in the corporate form") had negotiated with firms in this country with these results:

1. Important firms were kept from selling to the Latin-American market.
2. It gained control over a considerable portion of our chemical industry in that strategic products could not be manufactured without its permission.
3. It was able to retard the development of a magnesium industry in this country.
4. It was able to prevent one of our companies from selling munitions of a particular kind to the British Purchasing Commission.
5. It was able, acting through the Roehm Haas Company of Darmstadt, to impose a restriction on the amount of plastics that could be produced as cast sheets for bomber noses by the Dupont Company.
6. It had established the means of getting information for the German government through patent agreements and the right to inspect plants in this country.

German penetration of the United States aircraft manufacture came about through business agreements with the Sperry Gyroscope Company, Inc., the Bendix Aviation Corporation, and the American Bosch Corpora-

tion. The German firms, in turn, were "partners" of the Nazi government. Germany acquired all possible knowledge through these means. Sperry had entered a series of agreements in 1933 with Askania Werke, A. G., of Berlin relating to gyroscopic instruments—artificial horizon, directional gyroscope, and the automatic pilot. Askania never came through with the information or revenue called for in the agreement. Bendix entered an agreement in 1936 with Siemens Apparate und Maschinen G. m. b. H., a subsidiary of the Siemens and Halske Electric combine, primarily to get the manufacturing rights for the Siemens electrically driven automatic pilot in order to produce it for our Air Force. But through one delay or another, Bendix was effectively blocked from using it. As a result of another agreement, Bendix was not able to sell to Britain any aircraft carburetors, which England needed badly.

The American Bosch Company had entered an agreement with its German parent under which it was limited as to what it could manufacture. It had to purchase certain specified products from the parent-company. It could sell its products only in specified territory. Outside of that territory, it had to operate through the German distributors. It had to pay generous royalties to the parent-company. The parent-company came under Hitler's domination. One result was that Diesel engine development was retarded in this country. By 1941, our Navy was seriously handicapped. Yet, as late as July, 1941, nothing could be done without the consent of the German company. The development of synthetic rubber was likewise retarded by the action of a German cartel.

Without attempting to prove or to disprove the specific charges repeated in the foregoing paragraphs,[45] it is within our subject to offer a few comments.

1. As a nation, we will have to reach an honest and definitive position on the subject of cartels. We can go back to a position of insistence on the competitive principle in international and domestic trade alike, or we can revise our attempt to adhere to the competitive principle at home and permit the monopolistic spirit in our external trade. If the latter alternative is to prove workable rather than anomalous, there will have to be a clear-cut rule forbidding any domestic firm from entering cartel agreements that limit the domestic market in any way.

2. Contracts entered in peacetime can be legal and yet prove serious handicaps to national defense in time of war—especially if the one party enters with a sort of malice aforethought.

[45] On May 3, 1947, the United Press reported from Nuremberg, Germany, that the United States had indicted 24 top officials of the German I. G. Farbenindustrie as war criminals. In a document covering 85 pages they were charged with waging war, robbery, slavery, and mass murder, criminal police activities, and conspiracy to commit crimes against peace. The possible penalty is death by hanging or long prison terms. Similar indictments were planned for others as well.

3. It would seem desirable that, if cartels are to continue, all contracts and other understandings entered into with foreign cartels be subjected first to the scrutiny of experts from the Departments of War, Navy, Justice, State, and Commerce, as well as from the Tariff Commission and the Atomic Energy Control Commission.

4. Finally, we should judge our cartel relationships with the wisest of statements of Adam Smith in his *Wealth of Nations* that defense is greater than opulence. In other words, peacetime profits must not be sought at the cost of weakness in time of war.

The Place of the Cartel after World War II. There is still every evidence that cartels plan to become even more important and more inclusive in this postwar period than in the period following World War I. The movement promises to move along more rapidly, too. Our Department of Justice has already charged that in the case of the match industry, "postwar plans have already been made by the defendants to resume the conspiracy in full as soon as the difficulties created by the war disappear." Certainly the same factors instrumental at the end of World War I can conceivably be found again. Testimony has been offered that German cartels have already completed plans to dominate the Latin-American markets.

The special section issued by the *New Republic* entitled "Cartels: The Menace of Worldwide Monopoly," expressed the threat very clearly:

> We may expect to see the cartellized companies and those whom they influence oppose any international economic agencies or any international government that may threaten to destroy the fabric which they have woven or to bring them under control in the interest of the public or consumers. Just as they have been indifferent to, or even supporters of, the growth of fascism before the war, they will not hesitate to resort to extreme measures after it.
>
> British cartel spokesmen have advanced their own plan for world peace—one based on universalizing cartels and giving them the support of the British and American governments. Lord McGowan of Imperial Chemicals has come out for the repeal of the Sherman Act in the United States. Sir Edgar Jones of the international tin-plate cartel is promoting a World Trade Alliance, and has said: "If Great Britain and the United States will take the lead and get the producers of each main product to prepare schemes for world export regulation, then general employment can be insured." This would, he added, facilitate the regulation of production within each country. How cartel practices would promote the large production which would be necessary for an economy of abundance he does not make clear.[46]

The Future. The problem of the United States in combating the cartel is complicated by the Webb-Pomerene Act and by the fact that some of the members of the United Nations sponsor important cartels.

[46] *New Republic*, March 27, 1944, Part II.

There will likewise be the necessity of combining friendly interests as well as enemy interests in reaching a policy. Many people question whether this can be done. They likewise question how it can be attempted. They raise a further question, "What is the alternative?"

The late President Roosevelt made his position clear in many official acts and utterances that the cartel must make way for something else. Among these must be mentioned the Atlantic Charter, which seeks "with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity." The Charter of the United Nations is likewise broad enough to cover action by the Economic and Social Council, should that body decide to study and to make recommendations on the subject of cartels. After three years of study our interdepartmental Executive Committee on Foreign Economic Policy reported late in 1944 that it believed that the United States should take a firm stand against all international restrictive agreements. Exceptions were to be allowed for purposes of national defense, and so on.

Intergovernmental Commodity Arrangements. While opposing the cartels organized by private companies and individuals, many people have also recognized the fact that overproduction and glutted markets contribute to domestic and international instability. During the world-wide depression of the thirties, for example, the United States became a party to sugar, wheat, and coffee arrangements. Quotas have been established through the joint action of producing and consuming countries. Other countries have controlled tin, beef, tea, and rubber through joint action of governments. Other commodities likely to be given such treatment are cotton, cocoa, rice, copper, vegetable oils, wool, various drugs, and nitrates.

The advantages claimed for the cartelization by nations through intergovernmental committees spring out of the fact that the consuming nations are given a voice along with the producing nations. This has worked out fairly well, although no existing agreement has worked smoothly. Some of the earlier agreements were at fault in ignoring the consuming nations and in attempting to fix prices and regulate quantities without reference to them. But regardless of the benefits, these agreements are not based on the competitive principle and freedom of international commodity movements.

The Executive Committee on Foreign Economic Policy of the State Department was reported in the fall of 1944 as contemplating raw material cartels under an international body. Such agreements would seek to promote rather than to restrain international trade. It is felt that they would give consumer nations a voice in fixing quotas and prices. Such

quotas would provide ample supplies and adequate reserves. Consumer nations would undertake to encourage consumption so as to keep production up. Prices would be set high enough to encourage normal production without overexpansion but not high enough to curtail consumption. All agreements would undertake to give all nations access to supplies.

Another proposal has been heard from time to time which suggests the cartelization of all United States import and export business under governmental control. This would be much like the Russian plan now in use. It would make of business a weapon for international intrigue and, while disrupting the competitive system within the country, would constitute a constant menace to the peace of the world.

The Proposals of the I.T.O. The International Trade Organization, proposed in the fall of 1946, has taken a definite attitude toward cartels and intergovernmental commodity arrangements. Business practices which "restrain competition, limit access to markets, or foster monopolistic control," are to be judged by their effects. They are to be condemned if they interfere with "the expansion of production and trade and the maintenance in all countries of high levels of real income." Nations which become signatory to I.T.O. would pledge themselves to see to it that cartels under their jurisdiction would refrain from such practices. Provision is likewise made for an investigation by the I.T.O. when complaints have been made. Members would then receive such recommendations as might derive from the investigation and report what action they plan to take.

The I.T.O. recognizes intergovernmental commodity agreements but wants them limited in duration and subject to periodic review. They must be open to all countries and must give producing and consuming countries equal voice. All of their activities must likewise be accompanied by full publicity. Accordingly, while neither advocating nor condemning this type of agreement, the framers of the I.T.O. have sought to make it into a fair and sound international trade relationship. Conceivably, intergovernmental commodity arrangements would tend to curtail the individual type of cartel.

SUMMARY

The cartel has long been employed as a means of straddling national boundaries and exerting control over raw materials and manufactured products. Cartels are curtailed in wartime but usually grow with the return of peace. They likewise show a decline during depression. Cartels have been recognized by most countries. They have been encouraged by some and tolerated by others. Some writers have noted a connection between tariffs and cartels.

The United States considered all contracts in restraint of international

trade illegal until 1918 when the Webb Export Act exempted export combinations from the provisions of the antitrust acts. The Webb Export Associations, however, never became numerous. They have undertaken many functions connected with the sale of products abroad.

World War II brought cartel practices to the fore and led to severe condemnation of restrictive agreements which interfered with the military preparedness of the Allied nations. The United States has even brought indictments against some of the German leaders as war criminals.

QUESTIONS FOR DISCUSSION

1. Describe the nature and purposes of Amtorg, and suggest the nature of international trade if all countries were to build similar corporations.
2. Define the cartel and list the main criticisms leveled against it.
3. What is the relation of the cartel to the tariff?
4. Are there any good cartels?
5. What results might occur if the products listed in the Chapter were rescued from cartel control? Are all of the results unmixed advantages?
6. Why was the Webb Export Act passed, and why has it failed to fulfill all of the expectancies held for it?
7. What "solution" can you suggest for the cartel problem in so far as it involves national safety in time of war?

Chapter XXXII

THE MERCHANT MARINE AND AIR TRANSPORTATION POLICIES

Introduction. The need for water transportation is as old as interregional trade itself. To the degree that early civilization was usually developed along rivers and other bodies of water, the boat was one of man's earliest means of transportation. Boats and later ships were associated with war as well as with commerce from the very beginning. Shipping, therefore, always enjoyed some degree of public interest. The earliest merchants usually owned their ships, but, as time went on, ships became the concern of governments. The famous trade of Venice and the Italian cities was carried on in ships that were part of the community's capital. On many occasions laws favorable to ships, shipbuilding, and sailors were passed by city-states, parliaments, and rulers.

Aid to shipping reached its peak in the form of navigation laws. We are likely to think just of the legislation known as the "Navigation Act of 1651" but all through history there have been laws of this type. In Chapter IV we saw how the mercantilists regarded ships as one of the essential tools of national greatness, not only for fighting and carrying goods, but also as a vital link between mother-country and colonies. We have, likewise, noted the earlier arguments as to whether the sea itself was the property of one or a few nations or whether it was open to the ships of all nations.

The Merchant Marine in the Nineteenth Century. During the nineteenth century a nation's merchant marine was as much a part of the national setup as was the post office, the fighting navy, or the banking system. While no one common policy was used by all nations at any one time, most of them employed one or more of the devices helpful to the building of an adequate shipping industry. These included bounties to shipowners and shipbuilders, subsidies and subventions in the form of generous mail contracts, discriminatory tariff rates in favor of goods carried in nationally owned ships, cheap loans to shipbuilders, and the reservation of the coastal trade and inland waterways to ships owned by nationals. Some governments saw fit to build, own, and operate their own merchant vessels. Others gave encouragement to private builders and operators, while still others built the vessels and turned them over to private citizens and companies for operation.

The Merchant Marine in Colonial Days. The prowess of the New England colonists as shipbuilders is legendary. By the end of the seventeenth century, they had built over 1,000 ships; and at the time of the Revolution, there were more people in northern New England engaged in shipbuilding and navigation than in agriculture.[1] Colonial-built ships, moreover, not only served the colonists but accounted for one-third of the British merchant marine as well. During the Revolution the colonists had no fighting navy, but they made effective use of merchant vessels which they converted into privateers. About 700 British vessels were captured, and British losses exceeded $10,000,000. But 900 American vessels were seized or destroyed, and Britain "virtually drove American commerce from the ocean."[2]

With the return of peace, Britain now regarded the colonists as foreigners and applied her navigation laws to the United States; closed West Indian trade to United States vessels, limiting the carrying trade between the two countries; and prohibited the purchase of ships built in the United States. The young government was too weak under the Articles of Confederation to do anything about this treatment.

The Merchant Marine from 1789 to 1861. In 1789, Congress passed a registry law which limited the American flag to ships built in the United States and belonging to her citizens. Favorable rates of duty were accorded goods shipped in such vessels. Discriminatory tonnage taxes were levied against foreign ships. Our tonnage increased from 123,893 in 1789 to over 400,000 three years later. By 1794, our vessels were carrying 91 per cent of our imports and 86 per cent of our exports.[3] The United States merchant marine benefited at first from the European wars that began in 1792. By 1806, the tonnage had reached 800,000. But then followed the series of events familiar to every student of United States history—the Embargo and Non-Intercourse Acts and the War of 1812. Our commerce fell from $150,000,000 in 1810 to $20,000,000 in 1814.

In 1817, Congress passed a navigation act forbidding the importation of goods from any foreign port except in our own vessels or vessels of the country of origin. Nations whose policies were favorable to us were exempted from this provision. Foreign vessels were barred from coastwise trade. The United States opened the door for marine reciprocity in the years which followed, so that by 1849 all disabilities against the merchant marine were removed. This was the period when regular ocean routes were being established, when men like Samuel Cunard were laying the basis for extensive ocean travel. It was the period when subsidies were

[1] Marvin, Winthrop L., *The American Merchant Marine: Its History and Romance from 1620 to 1902* (New York: Charles Scribner's Sons, 1902), p. 11.

[2] Zeis, Paul Maxwell, *American Shipping Policy* (Princeton: Princeton University Press, 1938), p. 2, *passim.* This is a basic book. Although repeated footnote references will be made to it, they will not reveal the full dependence on this source.

[3] *Ibid.*, p. 11.

the order of the day. But subsidy legislation in the United States was never fully accepted without opposition.

The peak year for the construction of the famous clipper ships was reached in 1855 when 583,000 tons were built. After 1861, the use of iron in shipbuilding became popular. Great Britain forged ahead.

The Effects of the Civil War. The Civil War brought about a rapid collapse of the merchant marine. Some of the Northern shipowners sold their ships to foreigners—about one-third of our total tonnage. Others laid them up to escape the Southern cruisers, which succeeded, nevertheless, in destroying 110,000 tons. By the end of the war, only one-fourth of our trade was being carried in ships owned by the United States.

The Rise of Pressure Groups. Although there was a widespread division of opinion as to the merits of ship subsidies prior to the Civil War on the part of the public, a well-marked cleavage became apparent afterward. Until the war and the introduction of iron ships, "there was a substantial identity of interest between the shipbuilders and shipowners. . . . . But this identity of interest was to remain only as long as ships could be purchased more cheaply in this country than abroad. As soon as the cost of ship construction in America began to exceed the cost in foreign countries, a genuine conflict of interest between the shipbuilders and ship purchasers was inevitable." The former wanted a continuation of the navigation laws, while the latter wanted cheap ships.[4] Other groups got into the picture—the navy, the manufacturers, the exporters, and the seamen's union. The controversy between free trade and protection likewise exerted an influence. But as a result, no effective legislation was passed and the tonnage declined until World War I in spite of subsidies and other encouragements during the intervening years.

This decline was not watched with equanimity. The House of Representatives called for a report on the causes back of the decline. It was made available in 1870, but no legislation resulted from it. The shipowners who had opposed subsidies now demanded them because of the higher wages paid on United States vessels. In the eighties, Secretary of State Blaine and others who were interested in Latin-American relations emphasized the possibilities of imports and exports if adequate shipping service were made available.

In 1903 President Theodore Roosevelt championed a merchant marine declaring in his typical fashion, "It is absurd for the United States to depend upon foreign ships to distribute its products as it would be for a department store to depend upon wagons of a competing house to deliver its goods." A Merchant Marine Commission appointed by him blamed the high cost of building and operating United States ships as well as foreign subsidies for the predicament of the merchant marine.

In 1898 the inclusion of Hawaii, Puerto Rico, and Alaska in the concept

[4] *Ibid.*, p. 13.

of coastal trade, and therefore limited to United States vessels, caused the United States to arrive—in the indignant language of Mr. Zeis—"at a position where it denied other nations access to its *colonial* trade. It reestablished a mercantilism nearly as complete as that which had dominated the policies of England under Cromwell and France during the days of Colbert. The new policy embodied precisely that form of mercantilism which the early statesmen of the Republic from Jefferson to Jackson had fought so bitterly. Thus do national policies veer with the changing winds of economic circumstance."[5]

Thus, while the United States tonnage on the ocean dwindled, the merchant marine grew in terms of coastal trade. When the first World War began, 90 per cent of the entire United States merchant marine was operating in coastal trade.

World War I. When World War I broke out, the United States was neutral. But fear of German cruisers caused Allied ships to remain in port. Hence, it became almost impossible for our exports to reach Europe. In August, 1913, for example, we exported 257,172 bales of cotton. But in August, 1914, the number of bales was only 21,219. By September not a bale was sent to France, Germany, Belgium, Russia, or Austria which had taken 457,013 bales for the same month in 1913.

President Wilson was authorized to suspend many provisions of the navigation and registry laws. By 1917 the tonnage transferred to United States registry totaled 650,000. To encourage the ship operators, the antitrust legislation was declared inoperative so far as agreements were concerned calling for the apportioning of traffic, fixing of rates, pooling of earnings, and allotting of ports. The Shipping Act of 1916 also provided for the creation of a shipping board with wide authority. The board began its activity in March, 1917, and created the Emergency Fleet Corporation authorized to build or purchase ships for foreign commerce. The capital of $50,000,000 was supplied by the government. A shipbuilding and ship-purchasing program of $750,000,000 followed in June. Subsequent laws raised the amount to more than $3,000,000,000—"a figure twice the value of the total seagoing commercial fleet of the world before the war." Here is not the place to assess the blame for the slowness or costliness of the program. Less than one-sixth of the tonnage was delivered before the Armistice. After the Armistice, shipbuilding continued —hundreds of ships for which the government had no use.

The Merchant Marine Act of 1920. The purpose of the Merchant Marine Act of 1920 was set forth at length in its preamble:

That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a mer-

[5] *Ibid.*, pp. 55–56.

chant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States: and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine, and, in so far as may not be inconsistent with the express provisions of this Act, the United States Shipping Board shall, in the disposition of vessels and shipping property as hereinafter provided, in the making of rules and regulations, and in the administration of the shipping laws keep always in view this purpose and object as the primary end to be obtained.

The new shipping board which was to consist of seven commissioners of whom not more than four were to be of the same political party was authorized "To make rules and regulations affecting shipping in the foreign trade not in conflict with law in order to adjust or meet general or special conditions unfavorable to shipping in the foreign trade, whether in any particular trade or upon any particular route or in commerce generally and which arise out of or result from foreign laws, rules, or regulations or from competitive methods or practices employed by owners, operators, agents, or masters of vessels of a foreign country." But, noble as were these aims and purposes, Congress failed to appropriate funds to pay the salaries of the board. President Harding revived the board in 1921, but the subsidy legislation which he backed was decisively defeated. The merchant marine at this time had reached its greatest strength with something over 11,000,000 gross tons.[6] But it declined every year after that until it stood at 4,560,000 gross tons in 1935. In that year, it carried one-third of our imports and exports.

The Merchant Marine Act of 1928. The Merchant Marine Act of 1928 reaffirmed the purposes of the laws of 1916 and 1920 and made available a revolving fund of $250,000,000 to shipowners. The act also dealt with mail contracts. One of its features was an order to United States employees when traveling on official business to use United States ships when available.

The Act of 1936. President Franklin D. Roosevelt was a believer in a merchant marine. He expressed his views in the following manner:

---

[6] A word of explanation is needed here to clarify expressions used in designating the "size" of vessels. A ship's capacity is expressed in tons. A ton is the equivalent of 100 cubic feet. *Gross tons* therefore refer to the capacity of the ship in cubic feet divided by 100. *Net tons* refer to the capacity of the vessel available for cargo or passengers. *Displacement tonnage* is another method of indicating size. This is the weight of a ship in long tons (2,240 pounds). It is so-called because the weight of a vessel is equal to the weight of the water it displaces. This weight (displacement weight) includes that of the crew and supplies but not fuel, passengers, or cargo. Displacement "loaded" includes these other factors. The difference between displacement light and displacement loaded is called *deadweight.*

. . . . in time of peace, subsidies granted by other nations, shipping combines, and other restrictive or rebating methods may well be used to the detriment of American shippers. The maintenance of fair competition alone calls for American-flag ships of sufficient tonnage to carry a reasonable portion of our foreign commerce.

Second, in the event of a major war in which the United States is not involved, our commerce in the absence of an adequate American merchant marine, might find itself seriously crippled because of its inability to secure bottoms for neutral, peaceful foreign trade.

Third, in the event of war in which the United States itself might be engaged, American-flag ships are obviously needed not only for naval auxiliaries but also for the maintenance of reasonable and necessary commercial intercourse with other nations. We should remember lessons learned in the last war.

President Roosevelt signed the Ship Subsidy Bill in 1936. The law set up the United States Maritime Commission of five members whose responsibility was to increase the amount of commerce handled by United States ships and to provide additional vessels for use in the event of war. The law defined an adequate merchant marine in terms of one able to carry all the domestic water-borne commerce, as well as a substantial portion of the exports and imports of the United States. The government stood ready to pay up to 50 per cent of the cost of ships and to lend an additional 25 per cent at 3.5 per cent interest to be repaid in twenty years. This construction subsidy was to take the place of mails subsidies. The law took control of mail contracts away from the Postmaster General and turned them over to the commission. Mail subsidies had been under fire for a long time. As of June, 1934, the Post Office Department had paid shipowners $119,257,757 for carrying mail. Since at the United States poundage rate the mail would have cost $15,534,509, it becomes apparent that the subsidy amounted to more than $100,000,000.

The Maritime Commission Report of 1937. On November 10, 1937, the report of the Maritime Commission[7] was released by the chairman, Joseph P. Kennedy. An extremely able report, it raised five sets of questions:

1. Should the United States attempt to compete in the international carrying trades?
2. What are the requirements of the United States?
3. What is the present status of the subsidized merchant marine?
4. What should be the policy of the United States?
5. What will it cost to maintain an adequate merchant marine in foreign trade?

[7] United States Maritime Commission, *The Economic Survey of the American Merchant Marine* (Washington, D.C.: U.S. Government Printing Office, 1937).

The report is important because it laid the foundation for the beginning of an expanded merchant marine in the most crucial period of our history. It contained these conclusions:

1. That it is desirable for a country to have ships subject to its own control in order to insure continued delivery of its goods.
2. That considerable savings can be had when transshipments can be avoided.
3. That quality of service and regularity of service improve when a country has an adequate merchant marine.
4. That our 7,000 miles of coast and our sixty harbors place a great dependence on a navy and that in the event of a major war, we lacked sufficient ships since the majority of those we had were old and slow or not of adequate size.
5. That merchant ships should be built capable of conversion into aircraft carriers, auxiliary cruisers, troop transports, tankers, and general supply or cargo ships.
6. That to service our foreign trade we would need a network of ship lines connecting our ports with some 600 ports in approximately 120 countries. But since our foreign commerce is largely confined to 23 trading areas each of which should be served by United States flag ships, we should develop our shipping relationships with nonmaritime nations and let maritime nations carry the bulk of our commerce with them.
7. That we should not build vessels that are extremely large or fast or luxurious since these are uneconomical. They present a problem in going through the Panama Canal and have a high insurance charge. Our vessels should lend themselves to standardized interchangeable parts and to mass production and should combine cargo and passenger service.
8. That in 1937 about half of our ocean-going vessels were subsidized.
9. That private capital is hesitant because of poor earning records, the fear of disastrous strikes and labor demands, the lack of stable governmental subsidy policy, and the international hazards of war, tariff policy, neutrality, and so on. Furthermore, the recapture provisions of the act of 1936 were unpopular.
10. That of the ships in use in May, 1937, 91.8 per cent would be twenty years old or more by 1942 and that to overcome this, we would have to build 261 vessels per year.
11. That a training program for merchant seamen was essential.
12. That, since a majority of our lines simply could not compete in international trade without substantial subsidy, the government had three alternatives:
    a) Continuation of present aid to private shipping
    b) Government ownership and private operation
    c) Government ownership and operation
13. That the cost of maintaining an adequate merchant marine for foreign trade would be about $20,000,000 annually for subsidies and $10,000,000 annually toward building ships.

The Shipbuilding Program. In 1939, 28 ships with a gross tonnage of 241,052 were built in the United States. During 1940 a total of 190 ships, all of 2,000 tons or more and totalling 1,007,282 gross tons were transferred from American registry. While most of them were very old, they nevertheless represented a decline in the size of our merchant marine. About half were purchased by Great Britain. To offset this loss, 53 ships of 2,000 tons or more and having greater carrying power were added. Six of these were passenger ships; 31 were cargo carriers; and 16 were tankers. In 1940, contracts were signed for 94 vessels with a gross tonnage of 853,230. The government was also pondering the possibility of taking over 158 foreign freighters immunized in our ports since the outbreak of World War II, although the Axis powers at that time threatened that this would be interpreted as an act of war. The goal of the Maritime Commission in that year was to reach a total of 500 new cargo ships by 1950.

At the beginning of 1941 the American merchant marine consisted of 156 passenger ships with a total of 1,100,356 gross tons and 705 cargo vessels of 3,591, 276 gross tons. Of the passenger type, 141 ships (1,039,360 tons) were ocean-going and 15 (60,996 tons) were Great Lakes vessels. Of the cargo vessels, 676 were ocean vessels (3,481,966 gross tons) and 29 were Great Lakes ships (109,310 tons). There were 353 ocean-going tankers (2,606,265 tons) and 9 vessels (33,768 tons) for use on the Great Lakes. We had 411 ships of the bulk-carrier type, such as ore ships, totaling 2,351,374 gross tons. But of these, only 54 were ocean-going (275,861 tons). There were 54 vessels, such as large ferries, in a miscellaneous class. Of these, 27 were deep-sea vessels (71,548 tons) and 27 were used on the Great Lakes (75,688 tons).

The age of the ocean-going vessels in 1941 was likewise significant. In terms of percentage, 13 per cent were 25 years or older; 57.5 per cent were 20 to 25 years; 14 per cent were 15 to 20 years; 4.3 per cent were 10 to 15 years; 3 per cent were 5 to 10 years; and 8.2 per cent were under 5 years. In other words, if vessels up to 20 years of age be considered seaworthy, our ocean-going merchant marine was 70 per cent over-age. This picture was not an encouraging one in the year that was to end in Pearl Harbor. Sixty-eight of the newer ships had been built by the United States Maritime Commission beginning in the fall of 1938. Another 75 were planned for the year 1941. These included 28 passenger liners.

As the war clouds reached dangerous proportions, the goal of 500 ships in ten years was sharply stepped up. These ships were to be built more quickly, and 200 Liberty ships were to be constructed, with another 277 ships for Lend-Lease, as well as 100 smaller ships. In other words, 1,200 new cargo ships were to be built by the end of 1943. The goal of a ship a week over a decade had become in December of 1941 a ship a day. By

July, 1942, it was to be two ships a day. In 1944 the rate achieved was 5 ships each day. We cannot help but compare this with the complacency of the period 1922–35 when the building of cargo vessels for overseas trade had virtually come to a stop.

In April, 1942, the President, acting under authority granted in the Merchant Marine Act of 1936, took control of all essential ocean-going tankers and dry-cargo vessels owned by citizens in this country. This involved about 25 per cent of the tonnage since the greater part had been acquired previously through purchase, charter, or requisition.

TABLE 59

DEADWEIGHT TONNAGE OF SHIPS DELIVERED UNDER THE MARITIME COMMISSION SHIPBUILDING PROGRAM*

Month	1939	1940	1941	1942	1943	1944	1945
January	. . .	30,330	47,200	197,628	1,007,680	1,204,730	1,229,296
February	31,230	31,628	40,500	289,549	1,236,481	1,372,864	.....
March	18,230	44,627	108,700	291,473	1,513,244	1,538,357	.....
April	25,042	64,219	131,200	401,632	1,603,307	1,593,691	......
May	34,340	44,457	98,600	619,779	1,782,836	1,537,915	......
June	31,594	32,399	81,700	749,654	1,670,442	1,379,994	......
July	18,440	105,121	127,441	791,667	1,669,341	1,274,453	.....
August	33,796	31,514	112,042	752,774	1,690,411	1,157,602	......
September	37,459	40,738	86,185	1,016,112	1,652,571	1,185,997	...
October	17,840	59,658	75,296	889,737	1,675,311	1,310,295	......
November	37,524	90,245	138,254	892,536	1,692,763	1,430,660	....
December	55,724	62,924	92,175	1,197,191	2,044,239	1,361,908	.....
Total deadweight tons	341,219	637,860	1,139,293	8,089,732	19,238,626	16,348,446	....
Number of ships	28	54	103	746	1,896	1,677	.....

* Letter of Admiral Land in *Congressional Record*, February 14, 1945.

The war losses in terms of tonnage suffered by our merchant marine from 1939 to the end of hostilities came to about 6,500,000 deadweight tons—an amount considerably more than half our pre-war merchant fleet. But, during the same period, we built 56,000,000 tons or about 7,100 ships. The Allies as a group lost 22,168,000 tons. In addition to the ships built by the United States, Britain built 6,900,000 tons and Canada built 2,700,000 between 1939 and 1945. The Axis powers lost some 10,000,000 gross tons during the war.

A summary of the shipbuilding program achieved by the Maritime Commission beginning with January, 1939, is shown in Table 59.

The Future. The end of the war left us with a merchant marine of some 50,000,000 tons. This figure is about five times our pre-war fleet and equal to the total merchant fleet of the world when the war started in

1939. The question of what to do with this enormous tonnage has been fully discussed. One view, which excited considerable adverse comment in certain circles, was expressed by Lewis Douglas, former Deputy Administrator of War Shipping and later named ambassador to England. His article in the *Atlantic Monthly* for April, 1945, and entitled "What Shall We Do with the Ships?" expressed the desire to return to a pre-war fleet of 10,000,000 tons and sell or lease to friendly maritime nations our war-built fleet at "nominal prices" or "nominal rentals."

Former Chairman of the Maritime Commission, Joseph P. Kennedy, supported the same tonnage for our postwar fleet in a Maritime Day dinner speech in Boston:

> I want no part of a merchant marine maintained merely for sentiment. . . . . Merchant shipping is not our most profitable form of activity. It's the other fellow's game; let him play it. . . .
>
> I think that the Army and Navy, having decided on what merchant ships they need to complement their fast building navies, could set aside adequate tonnage from our present fleet and see that they are taken care of and maintained. It is much easier for the Army and the Navy to get appropriations than it is for the Maritime Commission. . . .
>
> After the Army and Navy have taken what ships they want and after we have decided what vessels are required for our merchant marine, I think we should then negotiate for the transfer of tonnage to foreign countries—taking into consideration, of course, just what effect the use of these ships by foreign nations will have on our own merchant marine. After that has been done, I have no hesitancy in saying: Scrap the rest of the fleet.

Mr. Kennedy went on to point out that "our merchant fleet today is not a quality fleet. It is two-thirds composed of the slow-moving cumbersome Liberty ships. . . . . They have served America well. However, they would be of doubtful commercial use to this country after the war." His "concrete suggestion" was then expressed in a base figure of 10,000,000 tons as the size of the postwar merchant marine.

Admiral Land, Chairman of the Maritime Commission, holds the belief that we can use about 17,000,000 tons profitably. Of this, 7,500,000 would be used in foreign trade. This latter figure, by the way, is something less than three times the tonnage of our ships devoted to that trade in 1939. In that year, our active merchant marine consisted of 9,303,228 tons, of which 2,803,900 was employed in international trade.

Merchant Marine Policies of Other Countries. The insular character of Great Britain with her widespread colonial possessions has given her pre-eminence in the carrying trade, marine insurance, and shipbuilding. Over the centuries, Britain has employed every conceivable type of encouragement and policy. No attempt will be made here to deal his-

torically with the merchant marines of Britain or other countries. Instead, attention will be centered in the policies employed.

Great Britain has used construction and operation subsidies, mail contracts, admiralty payments, subventions to ships suitable as naval auxiliaries, government loans at low interest rates, various monopolistic privileges, direct investment of government funds, protection against credit losses for goods carried in British bottoms, discriminatory duties for British-carried goods, special overland freight rates, tax exemptions, and so on. The British have followed the policy of minimum interference with the operation of the fleet, although they have sought to discourage competition between British lines themselves. The British government does not operate any part of the merchant marine. Even the Labor government following World War II has kept its socialist policies away from that portion of the fleet engaged in international trade.

Until World War I the German merchant marine received only incidental financial aid from the government. In the twenties the rebuilding of the fleet was brought about by governmental loans for shipbuilding, but the fleet remained independent. With the advent of Hitler the government took over the shipping industry; and, although private operation was permitted, it was minutely controlled. In 1939 the merchant marine consisted of 2,459 steam and motor ships totaling 4,482,662 tons. When the war started about two-thirds of the ships of 2,000 tons or more fled to neutral ports. By the spring of 1941, Britain had succeeded in seizing or destroying almost one-third of Nazi shipping. With the defeat of Germany, the merchant marine ceased to exist technically. Any future merchant marine will have to depend upon Allied action.

France, with a longer record of subsidies than any other country, has extended construction and navigation bounties, as well as mail subsidies and cheap credit. In keeping with the practice of all countries, coastal trade has been reserved to French vessels. Railroad rates on goods intended for export in French ships have enjoyed a discount. The government has practiced a certain amount of discrimination against foreign shipping. During World War II, France lost two-thirds of her merchant ships.

Italy, in the period following World War I, differentiated the aid given her merchantmen in terms of destination. The indispensable lines were those connecting the homeland with Italian possessions. The useful lines were those plying between Italy and important world ports. While both received subsidies, the former received a far more generous treatment. Construction bounties were also given. Under Fascism, the merchant marine passed into government hands and became a part of political as well as economic expediency. Some 630,000 tons of Italian shipping came under British control early in the war.

Japan passed a significant navigation act in 1896 providing bounties for

the construction of large ships of iron and steel and subsidies for smaller ships. Substantial postal subventions were likewise a part of Japanese policy. In 1900, the merchant marine consisted of 500,000 tons. This figure had trebled by 1913, and by 1919 it stood at 2,325,000. By 1941, the fleet consisted of a tonnage of 5,630,000. The Japanese merchant marine has always enjoyed the advantage of a very low operating cost and has not needed aid from the government once the ships have been built. The status of the fleet for years to come is a matter for international action.

Norway has been an operator of ships rather than a shipbuilder. It has pursued a policy of buying ships at the lowest possible price. In this way, the subsidies for building paid by other countries have cheapened the price for the Norwegians. Norway has not subsidized her merchant marine, which competes with foreign vessels. But this is not the handicap it appears to be because of the special types of service that country sells—tankers, fruit vessels, fast transportation ships, and whalers, which are not the usual recipients of subsidies. There is no government ownership or direction.

The Russian government builds, owns, and operates her merchant marine. All overseas imports are carried in Russian vessels, and about half the exports go in Russian bottoms. This policy is part of the larger policy that has made a government monopoly out of all Russian foreign trade.

International Conferences on Shipping. Two international conferences held in the thirties to end cutthroat competition in ocean transportation accomplished little. The first was held in London in 1933 in connection with the World Economic Conference. The second, held in 1935, was attended by delegates from fifteen countries. Its aim was to set up reasonable rates and standards for both passenger and freight traffic, as well as to raise the level of competition. It is quite possible that this subject will become the concern of the economic-social segment of the United Nations Organization. Some sort of system might be worked out similar to the steamship conferences in the United States. These conferences are voluntary associations of shipping interests covering the same routes. They have succeeded in raising ethical standards and eliminating some of the glaring conditions which had become part of the industry.

Shipping Statistics: 1939 and 1945. When the two years 1939 and 1945 are compared, it becomes possible to picture the effects of the war in some degree on the status of the merchant marine of the world. Table 60 shows that the merchant marine of the United States and Canada grew greatly and that those of Brazil, Spain, and Sweden grew to some degree. Sharp declines are to be noted in the tonnage of the merchant marine of the Axis powers. What will remain to them will be even smaller when reparations have been fully paid. Other countries also showed a shrinking

in tonnage—Britain, Norway, Denmark, France, Greece, and the Netherlands.

TABLE 60

MERCHANT TONNAGE OPERATED BY PRINCIPAL MARITIME COUNTRIES (1,000 GROSS TONS AND OVER)*

Country	June 30, 1939	June 30, 1945
United States (nonmilitary)	8,672,090	27,959,000
United States (military)	.....	8,254,000
British Empire (except Canada)	18,179,020	14,934,000
Canada	654,786	892,000
Belgium	374,575	241,000
Brazil	419,962	445,000
Denmark	1,069,937	748,000
France	2,745,884	1,113,000
Germany	3,973,893	1,068,000
Greece	1,727,931	697,000
Netherlands	2,728,381	1,576,000
Italy	3,245,670	350,000
Japan	5,255,627	1,526,000
Norway	4,552,895	2,813,000
Spain	775,828	850,000
Sweden	1,364,683	1,389,000
Other countries	4,865,360	4,462,000
World total	60,606,522	69,335,000

* *Foreign Commerce Weekly*, February 23, 1946, p 4. Included as part of the tonnage for each country (British Empire, Belgium, France, Greece, the Netherlands, Norway) is the United States owned tonnage loaned to it under Lend-Lease. If this total of 3,097,581 is added to the figure for the United States and subtracted from those of the other countries, the losses suffered by them would be more apparent.

Postwar Shipping Policies, Plans, and Aspirations.[8] The nations of the world having postwar policies, plans, and aspirations regarding merchant marines seem to fall into three classes: (*a*) those that seek to win back their pre-war status; (*b*) those that wish to expand beyond their pre-war status; and (*c*) those that virtually had no ocean-going marine or comparatively unimportant marine before the war but want to have one now that the war is over. The differentiation suggested here is not intended to be a sharp one. The desire for one status can easily lead to another.

In the first group we find:

France	China	Norway
Greece	Sweden	Italy
The Netherlands	Great Britain	Canada
Belgium		

[8] This discussion is based on "Postwar Shipping," *Foreign Commerce Weekly*, March 2, 1946.

In the second group we must include:

Spain	India	Denmark
Argentina	Chile	Poland
Portugal	Mexico	Russia

In the third group may be listed:

Brazil	Colombia	Switzerland
Cuba	Uruguay	Eire

Let us consider, briefly, and in order, the nations seeking primarily a return to pre-war status. *France* has a five-year plan which envisages the chartering of foreign vessels and the building of vessels in the shipyards of other nations (Britain, Denmark, Sweden, Belgium, Canada, and the United States) until such time as her own shipyards can be rebuilt. *Greece* hopes to rebuild her coastwise vessels, practically all of which had been sunk, through the purchase of ships. She also wants to develop a fast tramp-steamer trade by converting some United States–built ships. *The Netherlands* plan a combination of domestic shipbuilding with an extensive ship-purchasing plan. *Belgium* wishes to rebuild her marine primarily through building her own ships. Having not shown much interest in buying United States surplus ships, the extent of her development and the speed of attainment is linked with the amount of reparations obtained.

China never possessed much of an ocean-going marine. She seeks merely to care for her coastwise trade through the purchase of surplus vessels from the United States and Canada. *Sweden* contemplates the maintenance of her fleet through her own building program. One of the few countries whose vessels are not of the emergency-built variety, her main problem seems to be whether to emphasize large fast ocean-going vessels or smaller boats for Baltic and North Sea trade. *Great Britain* faces the problem of regaining leadership by purchasing Canadian surplus vessels and by building new ships in her famous shipyards.

Norway, whose pre-war gross income from shipping equaled more than 10 per cent of her national income, is determined to have a total tonnage as high as 3,500,000—a figure that might place her in the second classification of countries. Norway has not shown much interest in purchasing high-cost ships from the United States and Canada and is weighing a reversal of her policy of purchasing in favor of becoming a builder of her own ships. Her domestic yards are booked to capacity through 1949, and ships are being built for her in Swedish, Danish, and other yards. The Norwegian industry remains the most individualistic with some five hundred independent shipping enterprises operating from one to four ships each.

Italy came out of the war with no ships in seaworthy condition for

ocean travel. Among the proposals for developing and restoring her merchant marine, mention should be made of the attempt to get back ships that had passed into the hands of Argentina, Brazil, Eire, and Venezuela; the purchase of United States surplus ships (contrary to the wishes of Italian builders); the salvaging of some 300,000 tons of sunken vessels in her waters; and the building of smaller craft of her own. *Canada's* policy seems to be to get back to a smaller merchant marine of pre-war dimensions by selling or chartering surplus ships to Canadian citizens, selling others to Britain, and keeping the remainder in reserve.

The second group of countries, those showing a desire to exceed their pre-war status, are motivated by a nationalism which is probably laudable provided it remains within bounds and does not interfere with such hopes as we have for a world free from war. *Spain* wants a merchant marine of 2,000,000 gross tons by 1953 and is promoting this end by granting loans and priority rights and by favoring the use of Spanish ships in import and export trade by treaty arrangements. *Argentina* looks to the augmentation of her state-owned marine through the purchase of 1,000,000 gross tons with which to have a share of the inter-American carrying trade. *Portugal* plans to increase her merchant marine, which did not suffer materially during the war, both by building ships and purchasing surplus United States vessels.

India's independence from England has led to the demand for a large fleet so that she can have her fair share of shipping in the trade with Britain, Europe, North America, as well as her neighbors nearer at hand. The fleet may be obtained through purchase of United States vessels, although this step is not popular in some circles in India. *Chile* hopes to become a maritime power through the building of smaller vessels in her own yards and the chartering of larger vessels and through favorable legislation that would establish schools for seamen and compel the use of Chilean bottoms for some percentage (50 per cent has been mentioned) of her exports and imports. *Mexico* seeks a larger share of the shipping trade with other American countries and is giving government aid to the improvement of shipping facilities.

Denmark has been emphasizing quality perhaps beyond any other nation—modern, fast, and well-equipped ships. *Poland* is determined to own a marine capable of carrying half of her commerce. She looks for part of this marine in the form of reparations. *Russia* has made no public announcements about her merchant marine. Never important in ocean shipping, it may be assumed that, with growing importance in international trade, she might develop a large shipping interest.

The third group of nations consists of those that had no great marine before the war or none at all. *Brazil's* pre-war fleet was coastal in nature, but she has plans for a sizable ocean-going marine and a training school

for seamen. *Cuba's* small merchant marine was left intact by the war, but Cuban leadership wants a more important role. *Colombia* and *Uruguay*, possessors of a few boats, look to the establishment of merchant marines. *Switzerland* was compelled by the war to establish a fleet of 100,000 tons primarily by chartering vessels of other countries. Successful in this venture, she now faces some public opinion favoring the retention of her ships. *Eire* looks forward to a state-financed merchant marine to consist of ships purchased, most likely, from the United States.

One noticeable feature in the postwar plans of nations is the apparent lack of enthusiasm for our surplus ships, even by those who need them and plan to purchase them. This is explained in part by the high costs of building ships in the United States and in part by the designs of the vessels themselves. The realization of the plans and aspirations of nations in the realm of the merchant marine depends a great deal upon the intensity of nationalism, the financial means available, and the size of future world trade. It is quite conceivable that, if all of the plans are fulfilled, the world will have more ships than it can use profitably.

The part to be played by the United States is excellently summarized in the following paragraphs:

The key problems confronting the shipping world today are: (1) What will be the freight-rate level in postwar shipping, and (2) What will be the frequency and quality of service offered our oversea trade? If the United States should withdraw a substantial volume of tonnage from active operation at this time when many mercantile countries suffer from a shortage of tonnage, might not an important result of such action be that world tonnage would be scarce and rates high? The result probably would be a lower volume of employment and higher consumer costs. If these consequences are not avoided, it might become extremely difficult to effect their removal later. That is why the policy finally decided upon with respect to ship disposal is so important.

On the other hand, if the shipping industry adopts a liberal policy with high quality of service and diversified services and a rate structure as low as practical in view of actual competitive costs, a basis will have been laid for a larger volume of international trade and wider employment inside and outside the shipping industry. Moreover, a goodwill may be established which will be a very important asset for the future of the shipping business.

This leads to a final question as to what the United States might contribute to a solution of the shipping problem. . . . (The) tonnage of the United States represents more than 40% of the world total tonnage, without considering the vessels operated by the Army and Navy. This fact alone suggests that the United States is in position to assume a key role in determining whether there is to be a scarcity of tonnage and high freight rates or a rather liberal supply of tonnage, competitive shipping, and lower rates. The chartering of vessels for operation in indirect as well as direct trade, both to shipping companies engaged in regular liner service and to independent operators and tramp operators, would have a distinct bearing on the outcome. If the United

States takes the lead in promoting reasonably low rates, large volume, and a high quality of service, other shipping countries may be inclined to follow our example. Thus, it follows that an important responsibility rests upon the United States.[9]

INTERNATIONAL AIR TRANSPORTATION POLICIES

Introduction. In the report of the Maritime Commission in 1937, recognition was given to air transportation as a potential "competitor of express passenger vessels of the superliner type," but it went on to say that "except for some possible loss of mail revenue, it is not believed that aircraft will injure to any appreciable extent the type of passenger vessels recommended for the American merchant marine, which do not include superliners. Aviation will obviously have no effect so far as freight vessels are concerned." Progress made during World War II may make this viewpoint untenable within a few years. But an estimate in April, 1945, by William A. M. Burden, Assistant Secretary of Commerce, in the *American Aviation Daily* is along the same line so far as passenger travel is concerned: "A conservative estimate is that within 5 or 6 years air transport will have diverted 50 percent of first-class passenger traffic from the steamship and created an amount of air travel equivalent to the amount diverted." Admiral Land has likewise pictured the possibility that postwar ocean aviation "will probably skim the cream from the fast passenger trade."

Freedom of the Air. An important part of air transport commercial policy has to do with the world attitude toward freedom of the air. The problem of jurisdiction over the air did not arise until the twentieth century when wireless communication and aircraft began to make use of this medium. In 1906, when the first regulation of wireless by nations began, the Institute of International Law formulated what it thought was the accepted belief of the day: "The air is free. States have over it, in time of peace and in time of war, only the rights necessary for preservation." This liberal interpretation gave way to the concept that jurisdiction over the air appertains to the subjacent state. This position was taken by all states in World War I. The Peace Conference in 1919 laid down the principle that "the Contracting States recognize that every State has complete and exclusive sovereignty in the air space above its territory and territorial waters."

Convention Relating to the Regulation of Air Navigation. An outgrowth of the Versailles deliberations was the Convention Relating to the Regulation of Air Navigation.[10] This convention, consisting of forty-three articles, recognized that in peacetime every signatory power should

[9] *Ibid.*, p. 51.

[10] Colegrove, Kenneth W., *International Control of Aviation* (Boston: World Peace Foundation, 1930). This is an informative volume and contains the texts of the important international agreements on this subject.

accord to each other freedom of innocent passage within set conditions. For example, the subjacent state could lay out the route to be followed. Each subjacent state could place restrictions in favor of its own nationals in the case of air transportation within its own borders and could set apart areas for military and safety reasons over which craft were not to fly. It is interesting to note here that such forbidden territory was to be closed to domestic fliers as well in order to discourage too many areas covering too large a territory being closed as a subterfuge against foreign craft. The convention listed many rules having to do with safety, keeping of logs, and so on.

This convention was signed by twenty-eight nations out of the thirty-one invited to take part. The defeated nations had not been asked; Haiti, Honduras, and the Hejaz did not sign. The United States was one of the signers, but our Senate never ratified the agreement. Ratifications in general were slow, and sufficient ratifications were not deposited until June 1, 1922. The International Commission for Air Navigation was set up the same day. This commission undertook to keep up to date such vital information as the marking of aircraft to show nationality and identity, certificates of worthiness, log books, lights and signals, "rules of the road," licensing of personnel, aeronautical maps and ground markings, danger areas, prices charged for fuel in various areas, meterological information, and customs procedures. To this end, the commission published weekly, in English and French, a *Bulletin of Information* which contributed enormously to the growth of air traffic understanding and probably avoided an untold amount of international friction.

It is difficult to say what harm our failure to join in this work caused. Undoubtedly, it did delay the development of full understanding on the subject of the rights of the air. Adherence was probably much more important for the countries of Europe, which are relatively small and crowded close together, because an airplane annihilates distance and comes up against sovereignty often and sharply. In general, it may be said, that even with this convention, the sky remained a closed sky subject only to reciprocal privileges in peacetime based on fairly narrow limitations.

Pan-American Convention of Commercial Aviation. At the Pan-American Conference held in Chile in 1923 an Inter-American Commercial Aviation Commission was appointed to draft a "bill of laws and regulations, the adoption of which is to be recommended to all the American states, with respect to commercial aviation, the determination of aerial routes, the establishment of special customs procedures for aviation, and the determination of adequate landing policies, and it shall make recommendations with respect to the places at which said stations shall be established."

The commission met in 1927 in Washington and prepared a draft which,

when modified, was submitted to the Sixth Pan-American Conference in 1928 in Havana where it was signed by all of the twenty-one states of the Pan-American Conference. Ratification, however, turned out to be a slow process. The Pan-American Convention had been based on a study of previous aviation agreements but failed to provide for the publication of current information in bulletin form. It remained for each signatory to keep each other signatory informed of all changes made in domestic air rules. Another element that made the Pan-American problem peculiar was that air lines were rarely owned or operated by the nationals of the states themselves. Instead, they were dominated by European countries. This made treatment of "foreigners" and "foreign aircraft" a touchy one.

In 1924, clauses regarding air post were added to the Universal Postal Union, which is responsible for the delivery of mail from one country to another. In 1926, Spain called a conference of delegates from Portugal and all the Latin-American countries, which resulted in the signing of the Ibero-American Air Convention. Haiti alone did not sign. Spain, having left the League of Nations, and noting that few Latin-American states had signed the Convention Relating to the Regulation of Air Navigation, probably saw a chance for a bit of prestige or even the beginning of a restored hegemony over her lost colonies. It was based on the convention of 1919 and, like it, was ratified very slowly.

Later Developments in the Control of Air Transportation. Foreign airplanes bound for the United States were placed under the provisions of the Civil Aeronautics Act of 1938 which gave to the Civil Aeronautics Board general jurisdiction and the right to issue permits and to control such flights. The board also had jurisdiction over the routes of United States air lines bound for foreign countries. The United States was also a signer of the Convention for the Unification of Certain Rules Relating to Interstate Transportation by Air (the Warsaw Convention) in 1934 which covered the questions of damages recoverable in air accidents (both to human beings and property), the form and legal effects of passenger tickets, baggage checks, waybills, and so on. Twenty-eight other nations are members.

Beginning in November, 1944, a noteworthy step was taken toward an open sky in the form of a series of agreements reached at Chicago during an international conference on civil aviation. Its principal purpose was to clarify freedom of air navigation and to develop it to the fullest degree possible both among the signatories and nonsignatory powers. It also undertook to work on all problems relating to international commercial air transportation along the same lines pursued by the permanent international commission referred to above. Fifty-four nations were represented. The United States and forty-five other nations signed the agreement. The conference adopted an interim agreement setting up a Provi-

sional International Civil Aviation Organization (P.I.C.A.O.), with a structure consisting of an assembly and a council. The former is made up of all signatories, each of whom has one vote. The council consists of twenty-one members chosen from three classifications into which the signatories are divided. Eight are chosen from "countries of chief importance in air transport." The interim appointments made in Chicago put in this category the United States, the United Kingdom, the Netherlands, France, Brazil, Mexico, and Belgium. The eighth place was left open for Russia. The next five are to represent "countries not otherwise included which make the largest contribution to the provision of facilities for international civil air navigation." The interim designations were Canada, India, Norway, Iraq, and Peru. The remaining eight are to be selected from "countries not otherwise included whose election will insure that all major geographical areas of the world are represented." The interim appointees represented China, Australia, Egypt, Czechoslovakia, El Salvador, Chile, and Colombia. The first interim assembly was held in Montreal (the permanent headquarters) in May, 1946. It issued a call for the simultaneous deposit of formal ratifications by March 1, 1947, so that, with at least twenty-six members, the term "interim" and "provisional" could be dropped and the International Civil Aviation Organization (I.C.A.O.) would become a reality and be able to hold its first meeting in May, 1947. The United States was the tenth country to ratify the agreement. Reports given at the interim assembly showed marked progress had been made in the field of safety, research, and the development of physical facilities. Little had been accomplished on the economic side, however, since the interim organization had not been given much authority. In other words, their problem was concerned with "how to fly" and not with "where and when to fly."

The P.I.C.A.O. has no organizational relationship to the United Nations Organization, but a proposed plan calls for a consultative arrangement between the two under which the I.C.A.O. would be recognized as the aviation agency of the U.N.O.

In addition to the main convention, there were two appendices framed. These appendices might be viewed as options open to members. They have been called the "two-freedoms" and the "five-freedoms" agreements, although formally they are known as the "International Air Services Transit Agreement" and the "International Air Transport Agreement," respectively. The "two-freedoms" agreement provides (*a*) for the right to fly in transit over the territory of the other signatories without landing; and (*b*) the right to land for nontraffic purposes to take on gasoline and oil, to make repairs, to take refuge from storms, or to meet some other emergency. The United States is a party to this option.

The "five-freedoms" agreement includes (*a*) and (*b*) above, together

with the privilege to put down and take on passengers, mail, and cargo destined from or to the nations whose nationality the aircraft possesses; and passengers, mail, or cargo destined to or from any other contracting nations. In other words, this option might be viewed as opening the public airports of each country to the planes of other countries in the same manner that harbors are open to the steamships of other nations. The peculiar problems are, of course, apparent. But unless this agreement ultimately wins acceptance, air transportation will take a peculiar turn based on unilateral or bilateral agreements. It is significant that the United States adhered to the "five-freedoms" agreement but withdrew when the other big air powers refused to join. We have, however, carried the principle forward in nineteen bilateral agreements and are seeking similar agreements with the other powers represented at Chicago. It may be said that the State Department has taken the broadest view of freedom of the air and that our example might prevent a repetition of the age-old controversy on the freedom of the seas. Short of this, we may discover that the sky is, not a unit, but a series of a hundred or more skies owned by as many sovereign states and that air routes are not as direct as nature would permit them to be except for sovereignty.

Commercial Air Lines. A word might be added here regarding commercial air lines connected with international trade. In early 1947, Great Britain had 211 airplanes engaged in international transportation; France had 210; the Netherlands had 59; and Norway, Sweden, and Denmark, which pool their overseas services, 62. Within the limits of Europe, these three countries retain their identity. It is interesting that of the total of 542 planes used by these countries, 316 or 58 per cent were built in the United States.[11] This is partly a war phenomenon and need not necessarily serve as a pattern for the future.

Australia's great distance from much of the rest of the world has served as an incentive for the development of air lines in recent years. The government has assumed the leading role. Most of the planes are products of the United States, whose codes and facilities also serve as a general example for those of Australia. Air routes by way of the Indies connect Australia with Europe and England. The route to New Zealand connects with Pan American Airways to the United States.[12]

In addition to distance from markets, the importance of air lines for landlocked nations such as Bolivia and for nations whose harbors are poor or icebound for several months out of each year must be kept in mind. The air might also be the answer for some of the Latin-American nations with scattered populations and terrains that make road and railroad

[11] *World Reports*, February 18, 1947, pp. 24–25.
[12] Daniel, Howard, and Belle, Minnie, *Australia: The New Customer* (New York: Ronald Press Co., 1946), pp. 315–16.

building expensive. All of these considerations must ultimately become the basis for a well-rounded policy.

The United States has authorized international routes for her air lines covering more than 177,000 miles. These routes emanate from 21 cities in this country. Approximately 150 planes are engaged in international service as compared with 600 used domestically.

SUMMARY

Nations have always stressed their merchant marines both for the sake of commerce and as an auxiliary to a navy in wartime. The United States has followed a policy of building great merchant marines in wartime and then allowing them to dwindle and disintegrate in periods of peace.

The world has more or less accepted British leadership in this field, although most countries have set up policies intended to give them adequate tonnage. These policies include favoring goods carried in ships of a country's registry, subsidies on shipbuilding and ship operation, loans at favorable interest rates, bounties, and other encouragements reminiscent of the old navigation acts.

The growing importance of air transportation has raised many issues including that of freedom of the air and the national control of air lines and air routes.

QUESTIONS FOR DISCUSSION

1. Why have nations developed elaborate merchant marine policies?
2. What has been the usual pattern of the United States Merchant Marine policy during wartime and afterward?
3. What were the principal points made in the Maritime Commission Report of 1937?
4. How has the United States policy differed from that of England? Norway?
5. What types of aid do countries give their merchant marines?
6. Will the postwar merchant marines of the world enter a competitive era? Why or why not?
7. What is the present status of the "freedom of the air"?
8. How important are commercial air lines today in international trade, and how important can they become in the next decade?

CHAPTER XXXIII

GOVERNMENT AIDS TO BUSINESS

Introduction. Thus far in our study, we have been considering what might be called the more general and somewhat indirect aids to business afforded by government. These included the tariff and other restrictions that helped the businessmen of a country by keeping out of his market entirely certain goods or by limiting their importation by means of quotas, milling and mixing restrictions, and the host of other controls already discussed. But just as the mercantilists had two sets of policies—one to keep imports out and the other to promote exports—so our present-day governments have two sets of policies. In this chapter, we are going to consider the commercial policies of nations having as their goal the encouragement of exports, although some references will be made to imports as well. Government aids to business may be classified in terms of the following instruments and devices:

I. Treaties
II. Governmental departments, ministries, and other agencies
III. Publications
IV. Tariff exemptions
V. Legislation to offset subsidies and dumping
VI. Export credits
VII. Miscellaneous and incidental aids

I. TREATIES

The Part Played by Treaties. In listing treaties as one of the commercial policies of nations that aid exports and regulate imports, we do not mean to imply that they exist solely for helping any one group of persons because they envelop everyone. But it is true that, since treaties deal with international relations, much of their subject matter is international trade and the shipping and traveling and expenditures incidental thereto. From the point of view of extreme sovereignty, no one but a French citizen has any rights in France, and no one in the United States has rights unless he is a citizen of our country. This is the implication when we say that no outside nation has the right to interfere with the internal affairs of another fully sovereign state. Such rights as we have when traveling in France or Frenchmen have while traveling here on business or pleasure are based on treaties granting such mutual privileges.

Treaties become a part of the law of our land. If, in the absence of a treaty, we wish to make equal treatment before the law a part of our system, we, of course can so do. As a matter of fact, we have made such laws and we think in these terms so that today the differences in the status of citizen and foreigner, while major in importance, are few in number. It is important, then, to realize that all rights do not flow from treaties today and that rights do exist in their absence. The world has made some progress from the time when the foreigner, the alien, the *Auslander*, was an outlaw. But there are sufficient reminders of sovereignty around us to make us respect treaty privileges. It is sovereignty that permits us to refuse citizenship to Japanese; to set immigration quotas against friendly nations; to forbid the export of helium; and to limit coastal trade to our own vessels. It is sovereignty that permits Panama to limit trade to her own citizens; that permits Russia to limit visits from outsiders; and that permits Britain to extend special treatment to the members of the Ottawa Conference.

But fundamentally, the treatment we give and the treatment we receive is based on the fear of retaliation—a fear so strong that it serves as a check even in wartime. It is a sort of "gold-plated rule" between nations which carries the brazen message: "If you mistreat my citizens, I will do the same to yours." It has in it something of the old system of hostages. Perhaps some day the U.N.O. will raise the tone of international relations.

Every treaty is, in a sense, a temporary modification of sovereignty in return for some benefit. What these benefits are, can best be expressed in terms of the subject matter of commercial treaties, among which we find the following representative, but not all-inclusive, list:[1]

Conditions of residence, travel, and trade
Immigration and emigration
Police protection and civil rights
Admission of diplomatic and consular officials, their rights and activities
Vehicles and instruments of communication and transportation
Navigation, quarantine, and harbor regulations, and dues relating thereto
Conditions for importation, exportation, transit, transfer, warehousing
Tariffs and custom laws
Protection to patents, trade-marks, copyrights, and other industrial rights
Possession and disposal of, or succession to, real and personal property
Payment of taxes
Rights of commercial, industrial, or financial associations
Exemption from military service, municipal functions, forced loans, and extraordinary levies
Treatment of commercial travelers and their samples
Bounties and drawbacks, internal duties and local dues

[1] United States Tariff Commission, *Handbook of Commercial Treaties* (Washington, D.C.: U.S. Government Printing Office, 1923), Introduction, p. 9.

Treatment of vessels seeking refuge from damage or shipwreck
Salvage operations and dues
Coasting trade and port-to-port trade with foreign cargoes
Exterritorial jurisdiction
Freedom of religion and right of burial

There are thousands of treaties, commercial agreements, and informal understandings in existence. Between January 1, 1935, and January 1, 1940, something like 858 bilateral commercial agreements and some 573 subsidiary agreements modifying or supplementing the agreements were signed by 79 countries. Their bilateral nature means that each agreement involved two countries. Hence, 2,852 engagements by individual countries are represented here. Add to this, multilateral agreements, and it is quite proper to picture the world as being agreement-minded. We may expect even more in the next decade because postwar years are usually conducive to treaty and agreement making.

II. GOVERNMENTAL DEPARTMENTS, MINISTRIES, AND OTHER AGENCIES

Departments of Commerce. All countries have a department or ministry of commerce or some agency concerned with foreign trade. In Canada, the department is known as "Trade and Commerce Department," and one of its divisions is known as the "Foreign Trade Service." It is made up of six main branches: Trade Commissioners Service, Export Division, Import Division, Commercial Relations and Foreign Tariffs Division, Trade Publicity Division, and Wheat and Grain Division. The Canadian Minister of Trade and Commerce has sounded the Canadian keynote in these words: "We intend to have trade commissioners stationed in every major trading center in the world where the appointments of such a representative will contribute to the enlargement of Canadian commerce." Early in 1946, Canada already had 31 foreign offices with 40 trade commissioners and 7 assistant commissioners whose "primary responsibility" is "the promotion of exports abroad." In so far as a country desiring to export must also be willing to import, they will give some attention to imports for Canada. The British agency is known as the "Department of Overseas Commerce." The Philippine department is known as the "Department of Agriculture and Commerce." In the Italian cabinet, there is a Minister of Foreign Trade. China has a Minister of Overseas Affairs distinct from the Minister of Foreign Affairs.

The United States Department of Commerce. The United States Department of Commerce includes a number of bureaus and administrative units which facilitate and promote foreign trade. By the expression "units which facilitate" we mean those that are established for more general purposes but whose work aids navigation and shipping, manufactur-

ing, and policy making. Among these are the Census Bureau, whose publications on manufacturing and trade are vital to business policy; the Bureau of Fisheries; the Bureau of Lighthouses; the Bureau of Navigation; the Steamship and Inspection Service; the Coast and Geodetic Survey; the Weather Bureau; and the Civil Aeronautics Administration.

The unit that promotes foreign trade directly is the Bureau of Foreign and Domestic Commerce[2] and its Office of International Trade. The bureau was established in 1912 and has had a very distinguished record of service in both the fields implied in its title. Its expanding functions, together with our newer emphasis on imports, are reflected in the Office of International Trade, which was established while Henry A. Wallace was Secretary of Commerce. Its functions are to encourage and facilitate the expansion and balanced growth of international trade; to promote stability of international economic relations; to co-operate with other nations in solving trade and exchange problems through international organizations and conferences; to assist other nations toward higher economic development as a means of stimulating United States and world trade; to foster and promote United States trade interests in exports, imports, and the maintenance of full employment; to facilitate United States participation in peacetime trade with former enemy and other areas in which normal channels of trade do not exist; and to reduce obstacles to and restrictions upon international trade.[3]

The work of the Office of International Trade is divided up among the Office of World Trade Policy, the Office of War Areas Trade, the Office of Foreign Economic Development, and the Office of World Trade Promotion, as indicated on Chart IV. The task of the *Office of World Trade Policy* is to

formulate and recommend the department's general international commercial policy; represent the Department in its relations in this field with other United States interdepartmental and international organizations; conduct primary Departmental responsibility for the International Trade Organization and related UNO agencies, develop information and proposals and collaborate with the State Department on trade negotiations with other nations.[4]

That of the *Office of War Areas Trade* is to

represent the interests of the Department and of United States business in the formulation and implementation of economic policy in enemy areas and the sale or other disposal of enemy assets; represent the Department and the United

[2] See Bureau of Foreign and Domestic Commerce, *The Businessman's Bureau* (Washington, D.C.: U.S. Government Printing Office, 1944), Economic Series No. 40.

[3] *Foreign Commerce Weekly*, March 9, 1946. The duties of the offices are taken from this same source.

[4] *Ibid.*

States trade community in postwar trade with enemy and other areas in which normal channels of trade do not exist; inform and advise the United States trade community on trade conditions and market opportunities resulting from the disruption of the economies of former enemy and related countries.[5]

The Office of Foreign Economic Development has as its functions to

analyze, recommend and encourage economic development and industrial projects abroad which would aid United States industry and trade; organize and sponsor technical missions in engineering, distribution, and management for the development of industrial projects in other countries which would provide markets for capital items and consumer goods for the United States.[6]

The Office of World Trade Promotion has for its purpose to

compile, analyze, and disseminate information relating to economic, industrial, commercial and financial developments abroad, and on all commodities in international trade; foster and promote imports to the United States from other areas; secure allocations for export of commodities; issue export licenses; assist United States trade in conversion to postwar world trade; foster and promote foreign travel; represent the United States trade community in the reduction of restrictions to world trade; present to industry plans and suggestions for expanding exports; interpret government operations to foreign traders and represent their interests to other Government agencies.[7]

This office, nicknamed "the Foreign Trader's agent in government," has pledged to "maintain a constant vigil to see that the needs of our foreign traders are taken into account in the formulation of the foreign economic policy of the United States."

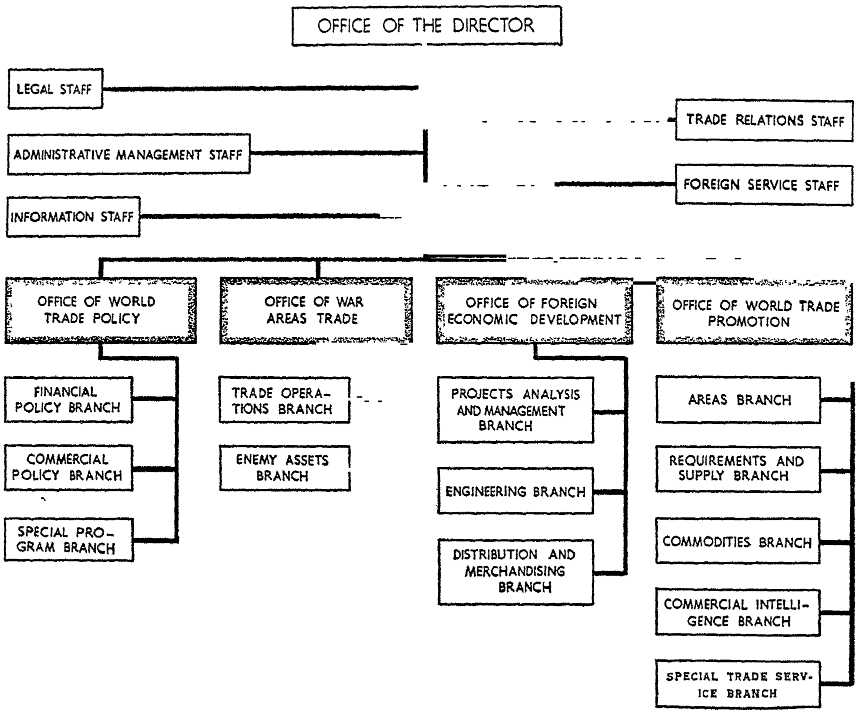
Further reference to the organization chart shows the inclusion of a number of staffs in the Office of International Trade. *The Legal Staff* advises on legal and interrelated legal and policy aspects of the work of the office; drafts or reviews proposed legislation, executive orders, international agreements, etc.; prepares or co-ordinates reports for Congress; and provides all other legal services. *The Administrative Management Staff* advises officials on administrative and management implications of the operations of the office; prepares and presents budget estimates; controls personnel ceilings and expenditures of funds; maintains accounts; prepares payrolls and audits expenditures; recruits, trains, and places employees and handles all other personnel problems; provides administrative services, and so on. *The Information Staff* co-ordinates and develops programs for publications and advises other parts of the office with respect to information to be released; issues press releases and public statements and receives inquiries from the press; and reviews all information released regarding the

[5] *Ibid.*
[6] *Ibid.*
[7] *Ibid.*

work of the office. *The Trade Relations Staff* arranges for and convenes trade advisory committees and formal or informal import and export groups, and maintains liaison with such committees and groups. *The Foreign Service Staff* represents the department in the selection and training of personnel for commercial reporting in the Foreign Service; maintains liaison with the State Department and the Foreign Service; channels to the

CHART IV

ORGANIZATION CHART OF THE OFFICE OF INTERNATIONAL TRADE*



* Adapted from *Foreign Commerce Weekly*, March 9, 1946, p. 4.

Foreign Service all proposals for action; records and distributes all communications with the Foreign Service.

The Department of Commerce also maintains field service in the form of district offices in forty-eight cities all over the United States. These offices serve as a source of information and guidance for business.

The Type of Aid Given by Other Departments of Government. Our Department of State is our department of foreign affairs. In recent years the economic importance of foreign affairs has caused most governments to employ foreign trade as an instrument of policy. In this country, too, our State Department has become more and more concerned about in-

ternational trade and finance. As a result, we have an Under-Secretary for Economic Affairs, an Assistant Secretary of State for Economic Affairs, a Director of the Office of International Trade Policy, and a Director of Economic Security Policy in the State Department. The State Department also has charge of the consular service which is essentially commercial in nature.

The exchange of consuls is based on treaties, and, as a result, each country has the right to send a consul to live in the important commercial cities of the world. Our own consular service began in 1792, and at the outbreak of World War II we had 64 consulates-general, 188 consulates, 6 vice-consulates, and 29 consular agencies. The consul is a commercial agent. By reference to the classified section of the telephone directory in any large city, it is possible to find out which countries have consular representatives. In Pittsburgh, for example, there are consulates of Great Britain, Czechoslovakia, Poland, Mexico, the Netherlands, and Yugoslavia; and there are vice-consulates of Spain and Sweden. Until the war there was also a German consulate.[8]

Let us picture some of the duties of one of our consuls stationed in a commercial city in some other country. He has certain responsibilities to people in his consular district and certain responsibilities to the people of the United States. He extends all sorts of aid to our citizens who happen to be in his district, whether resident or transient—he serves as a notary, as an administrator and settler of estates of United States citizens and sailors who die in his district, and as an arbitrator in disputes between shipmaster and sailors of ships under United States registry; he aids seamen, signs on and discharges seamen, assumes charge of shipwrecked vessels for their owners, visas passports for person planning to travel to the United States, and issues visas to emigrants bound for the United States. He enters and clears United States ships, certifies invoices, checks on values of exports bound for the United States, and prevents the exportation of goods whose entry is prohibited by United States law. He answers inquiries addressed to him by the people of the United States, sends reports and analyses of trade statistics that he thinks will be useful to our businessmen, describes economic conditions, marketing opportunities, commercial practices, and changes in laws and procedures. He sends any advice that he believes will be helpful. Take, for example, a recent situation wherein such advice proved useful: The United States Consulate at Puerto Limon on the Caribbean coast of Costa Rica became concerned over reports that

[8] A port city such as Baltimore has many more. The countries normally represented there include Argentina, Belgium, Brazil, Chile, Colombia, Costa Rica, Cuba, Denmark, Dominican Republic, France, Germany, Great Britain, Guatemala, Honduras, Italy, Luxemburg, the Netherlands, Norway, Panama, Paraguay, Peru, Portugal, Uruguay, and Venezuela.

United States goods were arriving in poor condition; that as a result a bad impression was being created by our goods; that blame was being placed on our merchant marine; and that insurance rates were to be raised because of claims. Investigation showed that our goods were perfectly good when shipped but that they were not suitably packed to meet conditions of heat and moisture. Cartons were being used to save the heavier costs of wooden cases but were not bound by bailing wire. As a result, the glue that held the cartons together was not adequate and the packages became loose. Several specific suggestions were thereupon sent back to United States shippers, and an appeal was made to our carrying companies not to accept inadequately packed goods. The advice saved money, but, what is far more important, prevented the disruption of trade and needless ill will.

We have already seen that the State Department assumes a major role in the development of reciprocal trade agreements. The department has general charge of negotiating treaties, issuing passports, protecting citizens when abroad; and it considers charges of commercial discrimination against our citizens and complaints of a similar nature by foreigners.

The Post Office Department. The Post Office Department aids the exporter and importer by carrying mail and parcel post to all parts of the world. Mailing a letter is a commonplace, but when a letter is addressed to some one outside of the country, a most remarkable system is called into play known as the "Universal Postal Union." Suppose that a businessman in San Francisco wishes to place an order for perfume with a French manufacturer located in Paris. The San Franciscan has done his part when he places a 5-cent stamp on the envelope and drops it in any mailbox he passes. Our post office collects the mail, sends it by train to New York, places it on board a mail steamer. Ultimately, the mail steamer arrives in Marseilles or some other port where the French post office takes the letter and a French postman delivers it, mixed with French domestic mail, to the perfume manufacturer's place of business. The same holds true for parcel post and for registered mail and money orders. In the last-mentioned instance, any post office in this country will accept United States money for payment in the form of equivalent French francs in any French post office. Again, it must be understood that this system serves everyone, but it is especially helpful to business.

Other Governmental Departments. The *Treasury Department* collects customs at some three hundred ports of entry and has supervision of bonded warehouses and the payment of drawbacks. It maintains the Coast Guard Service, which seeks to prevent smuggling, among other functions. One of the officials of the department is the Director of Foreign Funds Control. The Treasury Department also licenses custom brokers. Since custom officials themselves are prohibited from acting for importers, the custom broker, a private citizen, fills the important need of serving as an

agent for the absentee importer. He takes care of the clearance of shipments through the customs and forwards them to their destination. The licensing system removes the importer's fear regarding the integrity and ability of this agent. The *Department of Justice* includes the Immigration and Naturalization Service and is also involved in cartel prosecutions and violations of the law which affect importer and exporter alike.

Other Governmental Agencies. There are a number of independent commissions which likewise aid those engaged in foreign as well as domestic trade. The *Federal Trade Commission* administers the Webb Export Act under which fifty export associations now function. It carries on investigations into their activities. For example, it has recommended a readjustment in the business of the Phosphate Export Association and reported to Congress on the International Phosphate Cartel. It has been studying also the activities of the export associations engaged in the sale of carbon black; sulphur; metal screws; pipe fittings and valves; electrical apparatus; plywood; and evaporated, condensed, and malted milk.

The work of the *Tariff Commission* and the *United States Maritime Commission* has already been discussed. The *Production and Marketing Administration* was created in 1945. It is divided into ten commodity branches, each of which is responsible, among many other things, for the export and import, marketing, quotas, and surplus disposal program of its particular commodity. The divisions are cotton, dairy products, fats and oils, fruits and vegetables, grains, livestock, poultry, special commodities, sugar, and tobacco.

The *Interstate Commerce Commission* has charge of railroad rates and, in keeping with a widespread practice among nations, permits lower freight rates on commodities moving to wharves for export.[9] The commission also has supervision over freight forwarders engaged in foreign commerce. The freight forwarder is an individual who cares for the numerous details connected with shipping goods abroad—clearance; securing cargo space; arranging for goods to reach the vessel and for the bill of lading; assuming responsibility for the consular invoice, certificate of origin, or whatever other documents are required by the country of destination.

The *Federal Communications Commission* has jurisdiction over foreign means of communication whether by wire, radio, telephone, telegraph, or

[9] According to Professor G. Lloyd Wilson: "The United States apparently has never pursued a deliberate policy of using special low import or export rates solely to encourage export or import trade without regard to . . . other considerations. The primary consideration seems always to have been the adjustment of railroad freight rates to and from the ports in such ways as to enable competing areas of production, markets, transportation routes, seaboards and ports to participate in the export and import trade without undue handicap, or to equalize the advantages of certain ports or routes with other ports or routes." *Railroad Freight Rate Structure*, Part 2 of a series of 52 Traffic Lessons (Chicago: The Traffic Service Corporation, 1941), p. 195.

cable. The *United States Customs Court*, with headquarters in New York but with a circuit that covers the customs districts of the country, consists of one presiding judge and eight associate judges appointed by the President. The court hears appeals from decisions of customhouse appraisers and collectors on questions of the value of the imported merchandise, its classification in the tariff schedules, the rate and the amount of duty to be charged, or any other questions concerning imports. The first appeal is heard by one judge of the customs court from whom it can be carried to a "division" consisting of three judges whose decision is final unless a question of law is involved. In that case, the appeal can be carried to the United States Court of Customs and Patent Appeals in Washington (consisting of one presiding judge and eight associate judges). A final appeal to the United States Supreme Court is also possible. The setup and jurisdiction of the United States Customs Court is found in the tariff law. There is one curious provision (Section 517 of the Hawley-Smoot Tariff) regarding "frivolous protest or appeal." Seemingly, an attorney for the customs officials may call to the attention of the court or the court itself may recognize that the appeal from the ruling of the customs official is frivolous. The law provides a fine in such a case of "not less than $5 nor more than $250."[10]

III. PUBLICATIONS

Government Publications. While the scope of publications of the United States government defies imagination, there is probably no field in which the publications are more applied and to the point than those in the field of international trade and finance. We must fight a temptation here to devote a whole chapter just to this topic and compromise by painting a briefer yet adequate picture that will prove useful to the student. The government has accumulated a wealth of material far in excess of any other government. The student must learn what is available, however, in order to take advantage of this information and, perhaps, apply it, should he enter the field of international trade and international economic relations.

The International Reference Service. The International Reference Service is a loose-leaf reference service (approximately 9 by 12 inches in size) published by the Bureau of Foreign and Domestic Commerce and contains data on economic and commercial, financial and legal aspects of foreign countries—data that have a semipermanent value and a permanent value. The service is available on a subscription or single-copy basis. Mention of some of the releases affords an adequate idea of the topics covered and of their usefulness at a price within everyone's reach. Studies include

[10] See the very refreshing article, "Alice in Wonderland," by David G. Wittels, *Saturday Evening Post*, November 24, 1945, pp. 14 ff.

"Living and Office-operating Costs" in Guatemala, Panama, Brazil, El Salvador, Chile; "Summary of Current Economic Information" in Saudi Arabia, Mexico, Union of Soviet Socialist Republics, Switzerland, British Guiana, the Dutch West Indies, Madagascar and dependencies, Windward Islands, Bolivia, Haiti, Iraq, Aden Consular District, Iceland, Argentina, Eire, Surinam, Guatemala, and Honduras. Some of the other studies carry the titles:

"Establishing a Business in Venezuela" (Peru, Brazil, Paraguay, etc.)
"Preparing Shipments to Uruguay" (also Union of South Africa)
"Marketing Areas in Brazil"
"Taxation of Income, Personal Property, and Excess Profits in Colombia"
"Documentary Requirements on Shipments to Latin America"
"The Sterling Area (A Study of Monetary and Exchange Policy)"
"Doing Business with Russia"

The Industrial Reference Service. The Industrial Reference Service, as distinguished from the International Reference Service, is likewise a loose-leaf publication of the Department of Commerce which provides a continuous flow of foreign market surveys on major industries and commodities and also transportation facilities. It is available on a subscription or single-copy basis. We can get an idea of this government aid to business by asking the question: What, for example, would a manufacturer or exporter of electrical equipment and appliances find in this Industrial Reference Service? He would note these topics:

"Markets for Electrical Refrigerators in the Dominican Republic, Cuba, Brazil, Costa Rica, Nicaragua, Mexico, Venezuela, Argentina, Guatemala, Peru, and Ecuador"
"Markets for Incandescent and Fluorescent Lamps in Brazil, Panama, Colombia and Peru, Ecuador"
"Australian Market for Electric Household Washing Machines"
"Markets for X-ray Equipment in Nicaragua, Ecuador, and Bolivia"
"Electronics in Cuba, Mexico"
"Markets for Electric Flatirons in Chile, Colombia, Cuba, Mexico, and Venezuela"

Other industries covered include the leather industry; foodstuffs, fats, and oils; textiles and related products; and transportation and public utilities. Let us cite some of the topics chosen at random:

"Argentine Market for Shoe Polish"
"Markets for Leather Handbags in Mexico"
"Foreign Trade in Beverages and Beverage Materials"
"Colombian Markets for Women's, Misses', Children's, and Infants' Outerwear"

"Markets for Toys in Paraguay"
"Markets for Watches in Paraguay"
"Markets for Cigarette Lighters in Colombia"
"Carpet Industry of Iran"
"Markets for Coal-Tar Dyes in Brazil"
"Markets for Cold and Vanishing Creams in Brazil"
"Insecticide Markets in Algeria, Egypt, and Liberia"
"Markets for Paper Bags in Mexico"
"Market Potentialities for Motion-Picture Equipment in the Fiji Islands"
"Markets for Cigarette Papers in Peru"
"Costa Rican Markets for Concrete Reinforcing Bars; Other Iron and Steel Bars and Rods; Plates, Sheets, and Strip; and Structural Shapes"
"Export and Import Trade of the United States in Manufactured Tobacco"
"Egyptian Market for Plywood and Veneers"
"Canned Meat Trade of the United States"
"Pharmaceuticals, Proprietary Medicines, Biologicals and Medicinal Chemicals—Republic of Haiti"
"Pulp and Paper—Foreign Economic Developments in China"

Foreign Commerce Weekly. One of the outstanding services rendered by our government to business takes the form of *Foreign Commerce Weekly*, "a Journal of International Economy." The magazine is a tool for exporters and importers and an essential part of the reading for students interested in international trade. A typical issue runs between forty and sixty pages. Let us "go through" a typical issue, again chosen at random. It happens to be that of November 9, 1946. It contained forty-eight pages. There were three special articles:

"Britain's Import Controls and Anglo-American Trade"
"Tourism in the Caribbean: New Developments Planned"
"Major Recent Trends in Our International Transactions"

Then there was the regular feature, "News by Countries." The principle developments of current significance for the foreign trader in twenty-three countries were given. This was followed by another regular weekly feature, "News by Commodities." Seventeen classes of commodities were discussed under this caption:

Aeronautical products
Beverages
Chemicals
Construction
Electrical equipment
Foodstuffs and allied products
Livestock
Lumber and products
Machinery, agricultural
Machinery, industrial
Medicinals and crude drugs
Paper and related products
Petroleum and products
Railway equipment
Special products
Textiles and related products
Tobacco and related products

The magazine also carries announcements of various types, statistics of trade, new books, Latin-American exchange rates, Export-Import Bank activities, and "New World Trade Leads," and "Trade Lists." We want to say something about the two features last-mentioned.

The "New World Trade Leads" is one of the most interesting of the regular departments. Some of the articles in the issue we are analyzing bore such captions as these: "Swedish Hospital Needs Equipment and Supplies"; "Greek Government Needs Gammexane to Fight Locusts"; "For Sale: 2,750,000 Liters of Turkish Wines"; "Equipment to Make Fish Oil and Meal Wanted in Iceland." Let us quote this last article:

> Manufacturers and suppliers in the United States will be interested in the visit to this country of Pall Olafsson of Iceland, who desires to purchase equipment for producing fish oil and fish meal.
>
> Mr. Olafsson represents the Government-operated Icelandic State Herring Oil & Meal Factories, Siglufjordur, Iceland. He expects to be in the United States about 6 months and will visit New York, Washington, Chicago, San Francisco, Los Angeles, Monterey, and Seattle.
>
> Interested American firms should write to Mr. Olafsson, c/o Iceland Freezing Plants Corporation, 165 Broadway, New York, N. Y.

There is no charge, of course, for such announcements. There are long lists of foreign visitors together with the export and import opportunities which present themselves. Let us cite three examples:

> *Australia*—W. S. Kent Hughes, representing Ramsay Ware Publishing Pty. Ltd., 129 King Street, Melbourne, Victoria, is interested in the latest developments in *printing machinery and paper*. Scheduled to arrive early in October, via Boston, for a visit of 3 months. U.S. address: c/o Robert C. Kerr, 153 Gates Avenue, Montclair, N.J. Itinerary: Boston, New York, Montclair, Washington, and Philadelphia.
>
> *Philippines*—Menzi & Co., Inc., 4th floor, Wilson Building, Manila, requests purchase quotations on *rayon fabrics* for ladies' and men's wear; ladies' *dress prints and other cotton fabrics;* men's *woolen and worsted suitings;* lace for trimmings and ladies' wear fabrics.
>
> *Eire*—M. Porteous & Co., Ltd., Templemichael Mills, White's Cross, Cork, request purchase quotations on 5,000 *ash handles* or *squares* for shovels and forks.

The "Trade Lists" announced weekly are compiled by the Commercial Intelligence Division and are put out in mimeographed form at the price of $1.00 for each country. This service began shortly after World War I when records rich in data on firms and individuals engaged in business, compiled for war purposes, were turned over to the Department of Commerce. After discarding reports of a purely political nature, there were

17,000 of commercial value. These formed the nucleus of a Commercial Intelligence Service that has steadily expanded along three lines:

1. *Classified lists of potential contacts.* These Trade Lists cover foreign distributors, such as agents, distributors, wholesalers, and importers; sources of foreign supply—growers, producers, and exporters; and principal industries, processors, and service organizations. (See the accompanying example, p. 748.)

The lists are prepared by commodities and services for practically all trading areas in the world. All names are listed first, pre-screened as to their political and general acceptability.

2. *Detailed reports on specific individuals or firms.* Known as "World Trade Directory Reports," these have grown from the original 17,000 to well over 800,000 (August, 1946). (See the accompanying example, p. 749.)

With such a report, the United States businessman can quickly check on the foreign prospect's type of organization, method of operation, and size of business in terms of employees, capital, and annual turnover. The report further notes the sales territory, the general reputation of the prospect, and other pertinent details.

3. *Specific trade leads.* The Commercial Intelligence Division brings together foreign traders of the United States and other countries by publicizing carefully checked export and import opportunities.

The interesting question of how these lists are built up and where the trade leads come from is answered by an official of the Commercial Intelligence Service, and, since the answer throws further light on the activities of our consuls, it is worth quoting:

In the main they [the leads] come from Foreign Service officers abroad who are under instructions to report all business visitors and legitimate trade leads.

Apart from these, however, we are currently receiving about 50 letters a day from businessmen abroad. Often they are written by persons unknown to this office. . . .

What is done about these unscreened leads? First they are carefully checked. If there is a World Trade Directory report in the Commercial Intelligence files, we can quickly tell whether the inquiring firm is reliable. Then if sufficient details have been furnished to permit intelligent handling, they are published as trade leads. But when information is too sparse as to either the man or his proposition, a request is sent to the proper Foreign Service officer to investigate further.

Sometimes leads to do business abroad come from United States businessmen who have received inquiries they cannot handle. . . They pass their leads on with the hope that publicizing them will result in satisfying the needs of the foreign inquirer.

The Trade Lists available take this form in the weekly announcements in *Foreign Commerce Weekly*:

Automotive-Equipment Importers and Dealers—Union of South Africa
Business Firms—British East Africa; French West Africa; Liberia
Clothing Manufacturers—Canada
Chemical Importers and Dealers—Dominican Republic
Department Stores—Canada
Dry-Goods and Clothing Importers and Dealers—Dominican Republic
Electrical Supplies and Equipment Importers and Dealers—Union of South Africa
Fibers Producers and Exporters—Mexico
Hardware Importers and Dealers—Syria and Lebanon
Iron, Steel and Building-Materials Importers and Dealers—El Salvador; Venezuela
Meat Packing, Sausage and Casings—Paraguay
Medicinal and Toilet-Preparations Importers and Dealers—Morocco
Motor-Vehicles Importers and Distributors—Mexico
Paints-and-Varnishes Importers and Dealers—Peru

Books and Pamphlets. In addition to these current publications, there are others that assume the more permanent form of books and pamphlets, all of which may be purchased at nominal prices from the Superintendent of Documents, Government Printing Office, Washington 25, D.C. There is no charge for the lists of such publications, which may be obtained by writing to the same address. Among the publications, we find these titles:

The United States in the World Economy. 1943. Pp. 216.
The Balance of International Payments of the United States. 1941.
Export and Import Practice. 1938. Pp. 306.
Commercial Travelers' Guide to Latin America.
Commercial Travelers' Guide to the Far East.
Channels for Trading Abroad.
United States Import Duties. 1946. Pp. 437.
Guides for the New and Prospective Foreign Trader.
Some Factors in Postwar Export Trade with the British Empire.
Rubber: History, Production, and Manufacture. 1940. Pp. 47.
Control of Ocean Freight Rates in Foreign Trade: A World Survey. 1940. Pp. 166.
Advertising in Brazil. 1937. Pp. 32.
Preparing Shipments to Europe. 1935. Pp. 149.
Legal Aspects in Collection of Accounts in Argentina. 1935. Pp. 19.
The Agriculture of Colombia. 1942. Pp. 160.
Regulation of Tariffs in Foreign Countries by Administrative Action. 1934. Pp. 38.
The Foreign Trade of Latin America (in 3 parts). 1942. Pp. 983 +. Pt. I; Pt. II, Vol. I; Pt. II, Vol. II; Pt. III.
Census of Foreign-Owned Assets in the United States. 1945. Pp. 88.
Latin-America as a Source of Strategic and Other Essential Materials. 1941. Pp. 397.

AN EXAMPLE OF A TRADE LIST*

DEPARTMENT OF COMMERCE
BUREAU OF FOREIGN AND DOMESTIC COMMERCE
WASHINGTON

This trade list has been compiled in the Commercial Intelligence Division from data prepared and submitted by American consular officers abroad under the direction of the Secretary of State. While every effort has been made to include in trade lists only firms of good repute no responsibility can be assumed in connection with any of the persons or firms listed herein nor for any transactions with such persons.

July 1935

HARDWARE—IMPORTERS, DEALERS AND AGENTS—UNION OF SOUTH AFRICA
(Including Builders' and Householdware, Hand Tools, Abrasives, Cutlery, Heating and Cooking Appliances.)

WHOLESALERS

JOHANNESBURG:

J. S. Welcass, Dragon Street. Wholesaler, retailer, handling hardware and other lines. Branches at Durban and Capetown. Two salesmen cover the Union of South Africa and Rhodesia. British.

Welcomes, Ltd. Head Office: Durban, which see.

Gladstone and Prickett, Roundtable Street. Wholesaler handling hardware and various other lines. Branches at Capetown and Port Elizabeth. Seven salesmen cover the Union of South Africa and Mozambique. Dutch.

Mulride and Frecke, Ltd., Commissioner and Glose Streets. Wholesaler handling household hardware and hand tools. Head office at Durban, but Johannesburg branch operates as a separate company. Twenty travellers cover the Transvaal, Orange Free State, Rhodesia and Upper Cape Province. Representative in the United States: Jones and Smith, 9 State Street, New York, N. Y. British.

Major and Massie, Ltd., P. O. Box 6974. Wholesaler, retailer and commission merchant handling builders' hardware, heating and cooking appliances and sandpaper. Branch in Ndola. Three salesmen cover Union of South Africa and Belgian Congo. British.

Covel and Dillbert, Ltd., 37 Marker Arcade. Wholesaler and retailer handling plumbing supplies and paints. Cover the Union of South Africa. British.

Camel Dealing Co., Ltd., P. O. Box 5985. Wholesaler handling cutlery and dry goods. Cover the Union of South Africa. Dutch.

Larbow's (Pty.) Limited, 89 Kirk Street. Wholesaler handling heating and cooking appliances, automotive products, and general hardware. Branches in Capetown, Durban, and Kimberly. Five salesmen cover Transvaal Province.

Ledame and Braile, Arcadia Building. Wholesaler and retailer, handling builders' hardware and engineers' requisites. Cover the Union of South Africa, Portuguese East Africa and Belgian Congo. Branch at Capetown. British.

* *Export and Import Practice*, p. 18.

WORLD TRADE DIRECTORY REPORT*

DEPARTMENT OF COMMERCE
BUREAU OF FOREIGN AND DOMESTIC COMMERCE
COMMERCIAL INTELLIGENCE DIVISION
WASHINGTON, D.C.

This report, compiled by the American Consular Service, is furnished at your request in confidence and without guaranty or responsibility on the part of this Bureau or the Consular Service.

The report is designed to present a true picture of the business organization of a prospective buyer of American goods and to indicate reliable and available sources of credit information.

Report on *John Doe & Company "Ohleanee"*
Address *196–198 Moenlvielt West, Batavia, Java, Netherlands India*
Classes of goods and character of business *Importer of automotive equipment, tires, spare parts and tools. Jobber, selling to wholesale trade.*
Code address *OMILO Batavia*
Language of correspondence *English; Dutch* Codes used *ABC 6th ed.; Bentley's*
Buys from the following countries *United States 80%; Netherlands 10%; Japan 10%*
Imports on: Own account *Yes* Consignment —— Agent on commission basis *No*
Organization *Corporation* Established *1914, in Batavia*
Branch houses *Surabaya*
Sales territory *Netherlands India* Number of traveling salesmen employed *4*
Representatives in United States *Overseas Service Corporation, 1632 Broadway, N.Y.*
References *Nederlandsch Indische Handelsbank N.V., Batavia, Java*
Smithtown Parts Co., 189 Eleventh Street, Akron, Mass.
Smith and Smith, 328 Wood Street, Quincy, Illinois
Capital: (Authorized *$150,000 U.S. Currency*
(Paid in *$100,000 " "* Annual sales *$750,000 U.S.*
Relative size of concern *Large* Number of employees *81*
Managers or partners *Lim Tjeng Loeij, age 43, Manager, Chinese*
J. J. Amos, age 45, Secretary, American
John Doe, Sr., Dutch, age 62, President and Treasurer
Capital (stock) controlled by *John Doe, Sr., 51%*
Agents for *Allen Automotive Export Co., San Francisco, California*
Battery Separator Manufacturing Co., Los Angeles, California
American Polish Co., 1 Van Buren Avenue, Chicago Illinois
General Reputation *Excellent. This is an old established house, acting as importer and jobber in automotive lines. It has excellent qualifications for service and is well regarded in the trade.*
Date of this report *July 1, 1935*

* *Export and Import Practice,* p. 20.

In order to show something more about these publications, let us look at the content of a few of them:

Advertising in Brazil: Market for imported merchandise. Standard of living and purchasing power. Size and character of population. Races; language and religions; occupations, wages, and income. Advertising of American products. Effectiveness of advertising—influence on consumer demand; influence on retail selling; advertising allowances for overseas principals; co-ordination of advertising and merchandising campaigns. Advertising media—newspapers, magazines, outdoor display advertising, streetcar advertising, bus, direct mail, window displays, premium offers, exhibitions, motion picture advertising, radio broadcasting, miscellaneous advertising media. Preparation of advertising copy. Art and photography. Advertising agencies—Brazilian, American.

Preparing Shipments to Europe: 29 countries are considered. Documentation. Labeling, packing, and marking. Entry and warehousing at destination. Re-exportation of goods—refund of duty. Advance rulings on customs classification. Fines and appeals. Import and export restrictions and special regulations. Shipping by mail. Shipper's export declaration.

Legal Aspects in Collection of Accounts in Argentina: Courts and their jurisdiction. Actions—venue, ordinary action at law, recourses after judgment. Execution of judgments. Executive Action. Action to collect on current accounts. Judicial deposit. Conditional sales by *prenda agraria.*

Commercial Travelers' Guide to Latin America: Part I takes up the countries on the west coast of South America; Part II, the east coast countries; and Part III, Mexico, Central America, and the Caribbean countries. The volumes are "pocket size"—about 7½ by 5 inches. In addition to a map, detailed information of the following nature is supplied for each country: Area, topography, and climate. Population, standard of living, and purchasing power. Chief economic activities. Transportation and communication—the names and addresses of each shipping line, frequency of sailings, fares charged; air lines; domestic telegraph rates; and international rates; postage and parcel post rates. Entry requirements. Arrival—baggage, storage, express companies; samples, when sent, when carried. Advertising—duties on advertising matter. Directories and guides—which ones to buy, where obtainable, and price. Salesmen's taxes and licenses. Sales territories and travel routes—commercial zones. Hints to travelers—best visiting time, clothing to be brought, hotel rates, holidays, legal time, business hours. Currency, exchange, and banking. Chief commercial centers, how each is reached, what banks are to be found in each, the hotels, and a brief note about the nature of each. (In the case of Argentina, forty-nine such centers are described. In the case of Buenos Aires, the capital, all of this information is given together with information about the climate, U.S. consular offices, rates charged by taxicabs, etc.) This truly remarkable publication is being brought up to date.

Export and Import Practice: Frankly this is a textbook and manual for foreign trade. It is divided into two parts called "Books." Book 1 deals with Export Practices and Book 2 with Import Practices. Book 1 contains 146 pages. Export Market Analysis. The Human Element. Export Selling. Competition.

Trade Restrictions. Preparing the Shipment. Documents on Exports. Transportation. Industrial-Property Protection. How to Quote for Export. Financing Exports. Collections. Book 2 consists of 160 pages. Import Market Analysis. The Human Element. Credit in Importing. Buying Abroad. The Import Order. Customs Procedure. Import Restrictions. Financing Imports. Why We Import. Practical Governmental Aid to Importers. Importation of Staples. Importation of Specialties. The volume makes liberal use of the documents used in foreign trade. (This book is likewise being revised.)

IV. TARIFF EXEMPTIONS

Tariff Exemption as an Aid to Trade. A positive aid to business has been the practice of governments to exempt certain goods from import tariff payments. Countries in the process of industrialization frequently permit equipment to enter without the payment of established duties for a set number of years for certain infant industries. They likewise permit drawbacks, provide for bonded warehouses, and establish foreign trade zones for goods intended for re-export or later importation, until which time, no duties need to be paid.

The Drawback. Drawbacks refer to the right of an importer to collect from his government the amount of import duties already paid on goods that he re-exports to the world market. The right is a very old one. Adam Smith has a chapter on the subject in his *Wealth of Nations* (1776) in which he refers to the drawback as a most reasonable encouragement to trade.

Our first tariff in 1789 recognized the principle as well. The present tariff permits the return to the importer of 99 per cent of the amount of duty paid by him when he imported the goods originally. The 1 per cent is a charge for administrative costs. Special provisions are included for a few specified items such as materials imported for the construction and equipment of ships built for foreigners. In theory, the drawback is logical. So long as duties are imposed on imports for domestic use, it is proper that they not be imposed on goods that are being shipped out for foreign use. In practice, however, the collection procedure is so complicated that in many cases re-exports have been known to forego reimbursement of duties.

The Bonded Warehouse. The bonded warehouse is a device provided in our tariff laws that permits the importation of goods into the United States without the immediate payment of duty. There are a number of reasons why an importer prefers this courtesy. He may plan to re-export the goods and wants to avoid the technicalities of requesting a drawback of duties. Or he may buy raw materials and other goods at a favorable price well in advance of his need but wishes to avoid tying up his funds by the payment of duties in the meantime. When ad valorem rates are 30 per cent and higher, it means a great deal not to have to pay

the duties far in advance of actual need. The present provisions for bonded warehouses place them under the strict supervision of the Secretary of the Treasury. He is the authority who designates "buildings or parts of buildings and other enclosures. . . . as bonded warehouses for the storage of imported merchandise entered for warehousing. . . . or for the manufacture of merchandise in bond, or for the repacking, sorting, or cleaning of imported merchandise."

When owned by the importer of the goods, the premises are known as "private bonded warehouses"; when offered for public storage, they are known as "public bonded warehouses." The bonds put up by the owner as a pledge that he will live up to the law must be approved by the Secretary of the Treasury and must be adequate to protect the government against loss. The warehouses are in charge of customs officials who have joint custody with the proprietor of all merchandise stored in them. The compensation of government employees is reimbursed to the government by the proprietor. Those engaged in carting merchandise to such warehouses must also be bonded.

There are few limitations on the nature of goods that may be stored. Any goods subject to duty may be stored except perishable articles and explosive substances other than firecrackers. Such merchandise may be withdrawn within three years (ten months in the case of grain) from the date of importation, for consumption upon payment of the duties and charges accruing, or for re-export to a foreign country without duty payments.

The law makes provision as well for what is called "manipulation" in the warehouse. Ordinarily, no merchandise can be withdrawn in less quantity than "an entire bale, cask, box, or other package; or, if in bulk, in the entire quantity imported or in a quantity not less than one ton weight." Under special permission "and under customs supervision, at the expense of the proprietor, merchandise may be cleaned, sorted, repacked, or otherwise exchanged in condition, but not manufactured, in bonded warehouses established for that purpose and be withdrawn therefrom for exportation to a foreign country. . . . without payment of duties. . . ."

There are also bonded manufacturing warehouses in which articles may be manufactured "in whole or in part of imported materials, or of materials subject to internal-revenue tax, and intended for exportation" without the payment of duty or internal-revenue tax. The manufacturer must put up satisfactory bonds. One limitation is placed on the type of goods to be manufactured. No distilled spirits from grain, starch, molasses, or sugar, including all dilutions or mixtures of them or either of them are to be made in such warehouses. There are many other details connected with this type of bonded warehouse; and there are special provisions for "bonded smelting warehouses" where ore and crude metals are processed.

Free Ports and Foreign Trade Zones. European free ports date from 1876. That established at Genoa was the first. Others were established in Hamburg and Bremen in 1888, Copenhagen in 1894, and Danzig in 1896. At the time of World War II, there were about 75 such zones to be found in some 25 countries. There were 10 free ports in Germany (Hamburg, Bremen, Bremerhaven, Cuxhaven, Waltershof, Geestemuende, Emden, Kiel, Flensburg, and Königsberg); 14 in Italy (Ancona, Bari, Brindisi, Cagliari, Catania, Fiume, Genoa, Leghorn, Messina, Naples, Palermo, Savona, Trieste, and Venice); 2 in Greece (Piraeus and Thessalonike); 4 in Rumania (Galatz, Brăila, Guirgui, and Constanţa); 3 in Sweden (Stockholm, Göteborg, and Malmö); and one each in Copenhagen, Denmark; Baltiski, Estonia; Csepel, Hungary; Liepaja, (Libau) Latvia; and Gdynia, Poland. There was also one in the Free City of Danzig. The Turkish government authorized the establishment of one in Istanbul or vicinity. Yugoslavia made use of Thessalonike; Czechoslovakia had portions allotted to her in Hamburg, Trieste, Gdynia, and Galatz. Switzerland had no free ports but had free zones at Basel, St. Gallen, and Zurich. Austria had a free zone in Vienna. Holland, Norway, Lithuania, Spain, and some other countries lacked both free ports and free zones but had liberal warehousing laws under which some of the functions could be carried out.

The free ports are administered in various ways.[11] Some are directly administered by the government; some by joint activity of government and private interests; some by group action of private interests known as a "consortium"; some by a private interest; and some by international control under agreements reached by the countries involved. The last-mentioned form of administration is found in the case of landlocked countries that lack ports of their own and therefore find a great advantage in sharing the facilities of others.

A "zone" has been defined as

> an isolated, enclosed, and policed area, under the supervision of a designated board of Federal officials, operated as a public utility by a corporation, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unlading, for storing goods, and for reshipping them by land and water; an area into which goods may be brought, stored, and subjected to certain specified manipulation operations. If reshipped to foreign points the goods may leave the restricted trade zone without payment of duties and without the intervention of customs officials, except under certain conditions. Such products cannot, of course, leave the foreign zone for domestic use or consumption without full compliance with existing customs laws. Goods may not be manufactured or exhibited in such an area. The area is subject equally with adjacent regions to all the laws relating to public health,

[11] Eldridge, R. R., and Others, *Export and Import Practice* (Washington, D.C.: U.S. Government Printing Office, 1938), p. 95.

vessel inspection, Postal Service, immigration, and to the supervision of Federal agencies having jurisdiction in ports of entry, including customs, to a limited extent.[12]

Foreign trade zones were first authorized in the United States by the Celler Act (Representative Emanuel Celler of New York) in 1934 after more than thirty years of effort on the part of interested persons. The New York Foreign Trade Zone was opened in 1937. It covers 92 acres and includes four large piers, more than 1,000,000 square feet of warehouse and storage space. The area is fenced off and patrolled by customs guards. In 1940 the zone received 130,449 long tons of merchandise valued at $36,619,000. In 1941, although the tonnage dropped to 101,895 long tons, the value was considerably higher—$63,702,000. Although manufacturing is not permitted, manipulation is given a fairly broad interpretation. For example, it is permissible to take radio sets manufactured in the United States into the zone and fit them into imported cabinets for export. The same is true of United States watch cases and Swiss watch movements. It has been pointed out that by using the New York Foreign Trade Zone, it is possible to disregard, at least temporarily in the case of goods ultimately brought into the United States for consumption, and permanently if the goods are re-exported, some 900 pages of customs regulations and all of the procedures they represent.[13]

Since the New York zone was opened, canned meats from Latin America, Sumatra tobacco, Brazil nuts, shiploads of tungsten ore, cotton, and so on have been manipulated by as many as five hundred employees at a time. Sometimes the manipulation proves to be an economy. For example, tagua nuts and some other products which are dutiable according to weight, can be brought to such a zone, dried, and then admitted. The advantages of such a zone have been said to include the following:

1. There is no expense for bonds or customs inspectors when imports are stored or manipulated, whether dutiable or nondutiable.
2. Buyers may examine and samples of merchandise may be withdrawn at any time.
3. Imports may remain in storage with no time limit.
4. Substandard foreign products are reconditioned before customs appraisal and liquidation. Goods not meeting standards of Government inspection agencies may be destroyed or re-exported.
5. Ships, lighters, railroads, motor trucks, or parcel post make direct delivery to or from zone, insuring efficient and frequent carrier service.

[12] Foreign-Trade Zones Board, *Regulations Governing the Establishment, Operation, Maintenance, and Administration in the United States of Foreign Trade Zones* (Washington, D.C.: U.S. Government Printing Office, 1935), Part I, p. 1.

[13] "What the Empire State Offers Business," *Journal of Commerce*, 2d Sec., November 12, 1946.

6. Foreign products may be held on consignment for spot delivery without being subject to customs regulations.
7. Domestic products may be assembled, repacked, or combined with foreign products for export. Drawback formalities are unnecessary.
8. Imports arriving improperly marked are remarked to meet customs requirements, and heavy penalties are thus avoided.
9. Imports under "quota" restrictions may be received in any quantity in excess of quota and held without customs liquidation awaiting next quota period thereby enabling owners to obtain loans on warehouse receipts.
10. Alcoholic beverages and other liquids imported in bulk may be bottled, labeled, and packed prior to customs entry and without being subject to State or Federal licensing agencies.
11. Inland importers may arrange to examine foreign merchandise here and save costly transportation expense to interior points on defective merchandise that would be later returned. Examination prior to entry precludes the possibility of payment of duties on damaged or unsalable merchandise.
12. Importers may erect their own structures within the zone to perform manipulating operations adapted to their needs.[14]

More recently, another advantage of the foreign trade zone has been found, namely, the opportunity afforded the smaller businessman engaged in import trade to avoid the expenses of the bonded warehouse, the formalities of drawbacks, and the higher rates paid to the larger importers when they constitute his source of supply. This can be illustrated by the tobacco trade. Before World War II, Sumatra tobacco was purchased in Holland by a few tobacco dealers from the United States who bought what they needed, together with all that was needed by smaller manufacturers. During the war, the Dutch market was transferred to the New York zone. This gave the small tobacco dealer and cigar-maker the chance to buy directly from the grower at lower costs and then to store the tobacco without payment of duty until such time as it was required.[15] The only other free trade zone in the United States is in New Orleans. San Francisco has applied for such an area. The members of the Los Angeles Board of Harbor Commissioners are now at work preparing an application for such a zone for the Los Angeles–Long Beach harbor area.

V. LEGISLATION TO OFFSET SUBSIDIES AND DUMPING

Subsidies. Governments have long followed the commercial policy of granting subsidies, bounties, and premiums to encourage exports. These three terms are often lumped together. A "subsidy" means a payment by government to an individual to offset a price differential and thereby improve his competitive position; a "bounty" is more like a bonus to en-

[14] Lyons, Thomas E., *Foreign Commerce Weekly*, July 10, 1943.
[15] *Annual Report of Foreign Trade Zones Board, Fiscal Year 1945.*

courage production in terms of quantity; and a "premium" is usually a payment as an incentive to quality. Such payments are perfectly legal. But when we recall that one nation's exports are the imports of another, we see at once that any monetary incentive paid by the exporter's country is likely to enable the favored product to disrupt domestic output in the other country. Our government has long opposed foreign subsidies and, at one time or another, has entered controversies with Germany, England, Ireland, Poland, Denmark, Latvia, Spain, and Australia as a result.

Our tariff law is very specific. It provides for countervailing duties to be determined by the Secretary of the Treasury whenever he finds that any dutiable goods are being encouraged in this manner by "any country, dependency, colony, province, or other political subdivision of government, person, partnership, association, cartel, or corporation." The countervailing duties are additional duties, over and above regular duties, amounting to "the net amount of such bounty or grant, however the same be paid or bestowed." Countervailing duties are found in China, Belgium, Canada, Czechoslovakia, Egypt, France, Japan, Portugal, and the Union of South Africa, and practically all countries have some means of coping with the subsidy.

Much as we have opposed foreign subsidies, we have been paying them, too. They were authorized by Section 32 of the Agricultural Adjustment Act, as amended. This statute makes 30 per cent of the gross receipts from import duties available to the Secretary of Agriculture for encouraging the exportation of agricultural commodities and for other purposes. We paid export subsidies on butter from April, 1938, to August, 1939; on pecans, from 1935 to 1939; on substandard prunes, from 1935 to 1937; on tobacco, from 1935 to 1939; on walnuts, from 1935 to 1941; on wheat flour, from 1938 to March, 1946; on wheat, under one law or another, from 1933 to 1934 and from 1938 to 1945. We have had an export subsidy on cotton from 1939 to the present time under the section mentioned above and under the Surplus Property Act of 1944, which permitted the Commodity Credit Corporation to dispose of agricultural products for export at competitive world prices, even though these were below domestic market prices. Subsidies in themselves are not necessarily harmful. A country that produces no tobacco of its own, for example, might obtain that product more cheaply when the producing country is paying a subsidy. But a different situation can be pictured when the subsidized article might undermine the structure of a new industry and have the effect of dumping.

Shipping subsidies, discussed in another chapter, seem to have escaped the general censure of governments. This is probably due to the fact that most governments pay such subsidies and regard the merchant marine as an auxiliary to the fighting navy in times of war. Therefore, what begins

purely as an economic subsidy soon takes on the proportions of national policy, against which other countries find it best not to protest.

Another type of subsidy that has won general acceptance is that given by countries to their fisheries. This goes back to mercantilist days, as the reader will recall. But here, again, there is more involved than just the exportation of fish. Not many countries, moreover, have fisheries; and, while most of those do extend some direct aid, only France, Eire, Italy, and Newfoundland pay export subsidies. The indirect aid, which has undoubtedly strengthened the exporting position of the fisheries, consists of the construction and repair of fishing vessels and freezing establishments; research and investigation; fish propagation and conservation; international treaty protection, improvement of port facilities; and other facilitation services and administrative services.

Dumping. "Dumping" may be defined as the sale of imported goods at a lower price than charged for the same goods in the country of production. It may be sporadic or more or less regular and systematic. It is frequently confused with ordinary low-price sales, price cutting, and severe competition. Our first law on the subject, that of 1916, condemned systematic importation as well as the sale if done with the intent of destroying, injuring, or preventing the establishment of an industry or restraining or monopolizing trade or commerce in the United States. The Canadian law has forbidden the sale of such goods whether the dumping be sporadic and casual or systematic. The same is true of the laws in the Union of South Africa and Australia. Poland, New Zealand, and Portugal have laws against dumping, and many other countries combine countervailing provisions with antidumping provisions. But dumping is not a governmental policy like the payment of subsidies. It is, instead, a private promotional activity, the outgrowth of large-scale production economies—the fact that the per unit cost of production becomes smaller as the number of units produced becomes greater, coupled with the fact that the domestic market cannot absorb the larger supply without a fall in price. Hence, dumping helps to obtain a greater efficiency profit on the amount sold at home, while any price in a foreign market which covers cost would still prove profitable for the surplus. The nature of dumping is sometimes misunderstood because, instead of being regarded as the importing act of one's own citizens, it is regarded as the overt act of the exporting country in dumping the goods in your market. What seems to be forgotten is that dumping has to take place through an importer.

It is not easy to reach a conclusion as to the extent of dumping, either in terms of our goods that reach other countries, or foreign goods that are brought into our market. There is some evidence that the latter has not been as great an evil as is frequently asserted. This holds true, of course, only so long as a distinction is made between lower prices and true dump-

ing. A study by our Tariff Commission back in 1918 is of some interest in this respect. A letter, addressed to more than 562 manufacturers, exporters, importers, and other businessmen, asked, among other things, how many cases of dumping the firm addressed could cite over a period of ten years. Of 281 replies received, 135 stated that they had no knowledge of dumping while 146 complained of dumping and certain other forms of competition encountered by them. We may assume that the other half of the firms addressed knew of no instances; otherwise, they would have written in, since dumping has always been a popular charge. The Tariff Commission found that between 1921 and 1933 there were 51 cases of dumping involving 16 countries and 40 commodities. The items ranged all the way from "peeled tomatoes" from Italy and strychnine from Switzerland to pig iron from Germany and safety matches from Russia and six other countries.

The United States Anti-Dumping Act of 1921 authorizes the Secretary of the Treasury to impose "a special dumping duty in an amount equal to the difference" whenever the "purchase price or the exporter's sales price is less than the foreign market value (or, in the absence of such value, than the cost of production)."

VI. EXPORT CREDITS

Governments and Export Credits. Prior to World War I, the financing of foreign trade and the risks run were not a concern of government. But conditions resulting from the war brought about a new government service. It began in Sweden in 1917, and by 1921 was found in Belgium and Great Britain. It spread to other European countries during the twenties and, by 1936, was employed in Denmark, the Netherlands, Finland, Germany, Italy, France, Spain, Norway, Japan, Latvia, Switzerland, and the United States. It assumed various forms. Great Britain offered credit insurance for exporters through the Export Credits Guarantee Department. The German government guaranteed losses up to 50 per cent of private insurance of credit. The Dutch government assumed 40 per cent of the invoice value. The Japanese government guaranteed exchange banks against losses instead of dealing with exporters themselves. A number of governments guaranteed the larger part of credit risks involved in exporting to Russia.

An interesting use of government guarantee of export credits was that of Norway during the period of League of Nations sanctions against Italy. As a member of the league, Norway found that her merchants had about 7,500,000 lire tied up in the Foreign Exchange Institute in Rome. Hence she agreed to guarantee 90 per cent of this amount by special act of the legislature on March 12, 1936.

In years past, the German government placed credits at very low rates at the disposal of her exporters. She also sanctioned a tie-up of German

banks with German industry so that a loan to a foreign country by a German bank assured the spending of the proceeds in Germany and reached the borrowing country in the form of goods and equipment. This practice has also been followed by other European countries.

In the United States, little was done except in the period of World War I when the War Finance Corporation was active in financing foreign sales. The Edge Act of 1919 permitted the formation of commercial banks to facilitate foreign trade, but not much was done under this authority. Each bank was to be chartered by the Federal Reserve Board (as it was called at that time) and have a minimum capital of $2,000,000 with authority to deal in bonds and all classes of commercial paper, to accept bills of exchange drawn upon it, to deal in foreign currencies and bullion, to receive deposits abroad subject to check, and to establish agencies and branches abroad.

The Export-Import Bank of Washington. It remained, however, for the Export-Import Bank to undertake the facilitation of export credits. This bank, a corporation owned by the United States government, was organized in 1934 for the purpose of "financing and facilitating exports and imports and the exchange of commodities between the United States. . . . and any foreign countries or the agencies or nationals thereof." It was likewise to render assistance to United States exporters and importers. Goods purchased through its aid were to be transported in United States ships, and insurance was to be arranged with United States companies when possible. The bank was not to compete with private banks, although it was able to adapt its lending power more easily to the particular circumstances surrounding the loan and to charge lower interest rates in some cases. Until 1940, loans were granted or lines of credit extended to facilitate the disposal of our tobacco and cotton surpluses in Spain, Italy, Germany, Czechoslovakia, Latvia, and Poland; to ease exchange conditions that tended to tie up our exporters' funds abroad; and to assist in construction projects in the other American countries. After 1940 the bank served defense and war requirements. After the war, the demand for the bank's funds for reconstruction purposes increased so greatly that during the first six months of 1946, almost as much new credit was authorized as in the previous eleven years of the Bank's existence ($1,157,000,000 as compared to $1,269,000,000 from 1934 to 1945). The demands have proved greater than the Bank's resources, but it is expected that the pressure for reconstruction loans will move on to the World Bank. The Export-Import Bank is not a competitor of the World Bank and plans to work with it.

We can get some idea of how the bank helps our foreign trade by considering the purposes of some of our more recent loans, the proceeds of which are spent in the United States—$1,930,000 to Brazil for Diesel en-

gines and $3,000,000 for air transportation equipment; $800,000 to Chile for electrical equipment for railways; $3,520,000 to Colombia for locomotives and railway equipment; $780,000 to Ecuador for highway construction, equipment and services; $3,000,000 to Mexico for the purchase of ground equipment for aviation; $100,000 to Peru for electrical equipment; $100,000,000, for cotton export to European countries; $40,000,000 to Poland for locomotives and coal cars; and $100,000,000 to Netherlands India for the export of goods and services. An example of credit extended to an importer is that of $120,000 to a Mr. Fred Leighton to import Mexican handicraft.

VII. MISCELLANEOUS AND INCIDENTAL AIDS

Other Aids to Business. We will not attempt to offer here anything more than a fairly general enumeration of a few other aids given by government to business. Practically all countries bear the expense of building, maintaining, and improving harbor facilities such as the Brazilian government is doing at the cost of $10,000,000 at Santos, leading coffee port.

Governments join in international ventures which help international trade both directly and indirectly. They have to do with communication, mapmaking, agriculture, seed testing, fisheries, navigation, weights and measures, protection of industrial property (patents, copyrights, industrial designs, trade-marks), special commodities (such as coffee, rubber, and sugar), the publication of tariffs and statistics.

Some governments have played an active part in the success of cartels. Others have emphasized quality regulation of exports in order to build firm trading foundations and good will. Some of the commodities subjected to this treatment have been butter and herring (Holland), silk (Japan), meat (Argentina), fresh fruit (Canada), oranges and castile soap (Spain), eggs (Australia), bananas (Canary Islands and some Central American countries), and the dye used in Persian rugs (Iran).

Another aid to international trade is the canal because it is a man-made waterway through a land barrier standing in the way of a continuous water route. The Panama Canal, built by the United States government, has contributed immeasurably to the encouragement of world commerce by making round-the-world shipping services profitable. The Suez Canal, likewise, has given the Mediterranean-Asiatic route its great importance. This canal is owned in part by a French company and in part by the British government. The latter owns 44 per cent of the stock and has ten Englishmen representing it on the governing board. The board also includes nineteen French, two Egyptian, and one Netherlands directors. The Kiel Canal has made it possible for vessels to go from the North Sea to the Baltic without having to go around Denmark.

Another source of aid to the exporter, which might be called incidental,

is that extended by municipalities and other subdivisions of government. Certain port cities aid shipping interests. Some of the Brazilian states help coffee exporters. New York State's Department of Commerce includes an Industrial Promotion Bureau which carries on, in miniature, some of the activities carried on nationally by the United States Department of Commerce. These activities include the discovery of business opportunities for citizens of New York State and supplement those of the federal department.

SUMMARY

In order to overcome the barriers of sovereignty and help their nationals engaged in business, governments have entered treaties covering virtually all situations which face travelers, businessmen, and business interests abroad. Governments have likewise established commerce departments or other units which publish advisory material covering the wide range of problems of traders, as well as trade promotion. The consular system is essentially devoted to this end, too.

Governments provide other incentives, such as drawbacks, bonded warehouses, free ports, and foreign trade zones. They pay subsidies to encourage exports, provide offsets against dumping, and extend export credits in various forms. In some cases where strips of land have interfered with all-sea routes, governments have built canals to facilitate trade.

QUESTIONS FOR DISCUSSION

1. What are the main points covered in commercial treaties?
2. Summarize the promotional work of the Department of Commerce.
3. Explain the physical setup of the Office of International Trade.
4. What are the duties of a consul?
5. Summarize briefly the aid given by independent government agencies.
6. Suggest how government publications help the United States trader.
7. Define: (*a*) drawback; (*b*) bonded warehouse.
8. Define free ports and trade zones. Describe the New York Foreign Trade Zone.
9. What are the advantages of such zones?
10. How do subsidies facilitate export trade? Why do other countries object to them?
11. What are the objections to dumping in its different forms?
12. Describe the work of the Export-Import Bank.

CHAPTER XXXIV

WORLD MOVEMENTS TOWARD AND AWAY FROM FREER TRADE

Introduction. Our survey from ancient times up to the present, divorced from dates and details, has shown to us the gradual and painful process whereby nations have tried to live as economic neighbors under the concept of sovereignty—at least the sovereignty of the powerful as opposed to the weak. Nations, like people, may live under one set of conditions with more or less peaceful intercourse only to find that changing conditions outmode or make less workable those laws and customs hitherto successful. The relation of nations under an agricultural economy is very different from that of nations under a commercial or industrial economy or of nations in different stages of development. The relations of nations differently endowed by nature, different because of wealth, different because of climate, different because of harbors and a multitude of other factors, again are unlike. Historically and politically, international relations have been the outgrowth of the impact of the national will and ambitions and economic needs of one nation against those of another. There being no umpire or government above a sovereign power, it follows that the impact must lead either to war or to an agreement or treaty of some sort. To this end, there have been alliances created by the intermarriage of reigning families, by political, military, and commercial agreements, and once in a while by political union or absorption. Groups of nations have likewise held interests in common against other groups—either for military purposes under the concept of balance of power or through political and economic ties such as the British Commonwealth of Nations. The first World War showed something of all of these. In a sense, it was a family war since, through intermarriage, the Kaiser of Germany, the King of England, the Czar of Russia, the Queen of Greece, all had Queen Victoria for their grandmother. The fighting nations, moreover, were in alliances—the Entente versus the Triple Alliance—and certain neutral states were supposed to be buffer states.

The difficulty of peaceful methods of ironing out the effects of impact lies in the obvious fact that their ultimate enforcement lies in war—a contest in which the aggrieved nation might not necessarily be the more powerful. Even when methods short of war are employed—devices such as boycotts, retaliation, embargoes—it does not follow that justice will tri-

umph. The problem of living together has caused some thinkers to suggest modifications of certain concepts of sovereignty in the hopes that more security would result. Some believe in a form of a league of nations and others want a "United States of Europe" or a political union of the democracies. We shall say a word about these proposals later in this chapter.

International trade has been influenced and shaped by the concept of sovereignty but has been a weapon of sovereignty as well. Imperialism, nationalism, mercantilism, and colonial spheres of influence have all been both political and economic. Similarly, terms that we ordinarily consider economic, such as international trade, tariff, and balance of trade, also have their political significance. As we have pointed out before, these devices are two-sided weapons and when employed simultaneously by two nations are likely to result in the type of impact we have been discussing. As a result, it is perfectly proper to regard the tariff and similar commercial policies as a means of promoting peace as well as fostering commercial rivalry and possibly war.

In this chapter, we propose to point out that commercial policies seem to move together toward freer trade and, on occasion, toward restriction. Such similarity as will appear is not purely accidental because nations frequently follow the example of others, sometimes through conviction and sometimes for purposes of retaliation. Then, too, the use of bilateral and multilateral agreements, especially those containing the most-favored-nation clause, causes two or more nations to grant tariff concessions or other commercial privileges. We shall consider the part played in the world movements by economic conferences that have been held and by various international understandings that have been entered into in recent years.

The Stages of Industrial Development. The movements toward and away from freer trade will be conditioned by the stage of development reached by the countries in question. Even at the present time, nations fall into three classes. There are some that make use of the tariff for revenue purposes and for such incidental protection as might be afforded domestic industry. These nations are still essentially agricultural and pastoral in their economy. Then there is a second type of nation which is becoming industrialized. Such a nation usually follows a vigorous policy of protection. The third group consists of nations already industrialized that are looking for raw material sources outside of their own territory. These nations are likely to be willing to make tariff concessions. In other words, the stages of economic development worked out by Friederic List still have their application today.

Periods of Protection and Freer Trade. The years from 1789 to the present may be divided into six periods for the purpose of tracing world movements toward and away from protection and freer trade:

Period 1. 1789–1833—Years of rising tariff rates
Period 2. 1834–70 —Years of moderation with a trend toward revenue rates
Period 3. 1871–1913—Years of rising tariff rates
Period 4. 1914–20 —Years of disturbed trade and restricted commerce
Period 5. 1921–31 —Years of sharp tariff increases
Period 6. 1932 and following—Years of trade strangulation with an emphasis on devices other than the tariff

There were but three countries whose tariffs were significant during the years 1789–1833—the United States, Great Britain, and France. Germany and Italy had not yet become centralized states; China and Japan were still closed to world commerce; and Russia was employing a prohibitory tariff to keep foreign goods out rather than to build up domestic industry behind the shelter afforded. The first half of the period was not conducive to orderly commerce or to the building-up of a tariff policy. The years from 1789 to 1815 were taken up with the French Revolution, the emergence of Napoleon, his attempts to dominate Europe, the struggle of neutral nations to maintain their commercial rights, and the War of 1812 between the United States and England. The middle years witnessed the revolt of the Spanish colonies and the birth of most of the Latin-American nations. The last years saw a wave of revolutions in France, Germany, and Belgium, and the emergence of Holland as an independent nation. But in so far as generalizations may be offered about the tariff, it may be said that the emphasis was on revenue in the earlier years and on revenue and protection later on. In 1789 the first United States tariff contained moderate rates, ranging from 7½ to 15 per cent ad valorem. Great Britain had reconstructed her tariff two years earlier. France had abolished her provincial tariffs and had set up a uniform tariff of 5 to 15 per cent, effective in 1791.

The second period witnessed the growth of the German tariff union, the beginning of a tariff policy in Holland and Switzerland, a united Germany, a unified Italy, federations in Argentina and Canada, and the partial opening of China and Japan to world commerce. The free trade movement in England in 1833 led to the reduction of rates on over seven hundred articles. This was the same year in which Henry Clay's Compromise Tariff became effective in the United States. In 1834 the Zollverein was established in Germany. It represented moderate taxation on finished goods and free trade in raw materials. By 1840, Britain had abandoned protection as a policy, France was considering downward revision, and our own tariff of 1842 had a free list three times as long as the earlier act. In the United States, France, and Germany, the tariff became a controversial problem between 1842 and 1850. The Zollverein entered commercial treaties granting lower rates to Holland in 1839 and to Belgium in 1844. In 1842, Peel abolished a large number of items productive of little

or no revenue, and in the United States the Walker or free trade tariff of 1846 went into effect. In 1847, Holland abolished her corn laws. In 1848, the Italian states liberalized their policy. In 1849, Switzerland unified her tariff law (the first general tariff of that country), and it was not protective. In 1850, Belgium abolished her corn laws. During these years, Russia reduced some rates and continued to do so in 1850 and 1857. The United States tariff of 1857 was low. In France, Napoleon III proved to be a free trader and reduced rates after 1852. In 1850, Holland abolished her duties on foreign shipping and in 1854 reformed her tariff.

The year 1860 found tariff barriers at a very low point. In the United States, the Civil War had not yet begun. Great Britain was on a free trade basis and, through the Cobden Treaty with France, brought that country's rates down. Later, these rates were generalized by Britain to other countries. Between 1861 and 1866 France entered agreements with Belgium, Prussia, the Zollverein, Italy, Switzerland, Norway-Sweden, Spain, Holland, Portugal, and Austria. These lower rates, in turn, became available to all countries having a most-favored-nation treaty with any one of these. It was much like a stone hurled into a quiet pool of water, which causes a splash and then a series of ever widening ripples. In Germany a free trade struggle beginning in 1861 was winning a large measure of success.

The third period (1871–1913) encompassed the rapid growth of prewar Europe, the beginnings of Latin-American trade, and the federation of Brazil and of Australia. The Civil War put a halt to moderate tariffs in this country; but in Great Britain, France, and Germany the trend continued. By 1870, Germany was almost a free trade country. In the postwar period our tariff was lowered only during the years 1872–1875, after which the high rates were restored. A reaction in Germany against free trade became evident at this time; and France, burdened by a depression beginning in 1875, waited for the expiration of her treaties to overthrow her liberal system. In 1875, Russia turned away from a policy of lower duties, which had persisted from 1825 on, and in 1877 began to require that all duties be paid in gold. This was equivalent to an increase of 50 per cent. In 1878 the new Italian tariff began a trend which became highly protectionist by 1887. The German tariff of 1879 was partly protectionist. The tariff of 1878 in Austria-Hungary was likewise high. In 1882, France and England gave up the Cobden Treaty. The United States passed the act of 1883, the first revision since the Civil War. It was a protectionist measure. The French tariff after 1885 contained some fairly heavy duties. The German tariff after 1880 reflected the growth of the protectionist-minded agrarian party. Russian increases occurred in 1881, 1885, 1886, 1887, and 1890. In that last year the United States passed the McKinley Act. France increased her rates in 1887, the same year as the Italian in-

crease, and then passed a high tariff in 1892. Tariff wars occurred in 1893 between France and Switzerland, in 1893 between Germany and Russia, and in 1888 between France and Italy. This latter lasted ten years. Argentina increased her tariff rates after 1893. In 1894 the Wilson-Gorman Tariff became effective in the United States, but tariff wars prevented any other countries from moving away from high protection. This act, moreover, grew out of a purely domestic situation, namely, a change in party and problems connected with currency. The act of 1897 brought the United States back into the upward swing. The Brazilian tariff of 1900 was the highest in this hemisphere. After 1903, Russian rates were increased; Canada and France began a seven years' tariff war; the German tariff of 1902 became effective and was dominantly, though moderately, protective. In a measure, it was responsible for a swing toward higher rates in Russia, Austria-Hungary, Switzerland, Bulgaria, Rumania, and Serbia—all of which had increased their general schedules in order to have better rates for bargaining with Germany. They had several years in which to do this since the act of 1902 did not become effective until 1906. The Swiss tariff of 1906 placed high duties on foodstuffs. Australia's first tariff as a federation in 1902 was partly protectionist.

In 1909 the Payne-Aldrich Act became the tariff in the United States; France also moved up her rates in 1910. Between 1892 and 1913 the latter had made thirty changes in her rates.[1] The year 1913 witnessed the passage of the Underwood Tariff in the United States. It was a revenue act with some protective rates. By 1914, France had granted minimum rates to all countries except Portugal, Australian rates had been doubled, Russia retained her high rates, but the other countries kept their older laws unchanged.

Whether or not the Underwood Act might have foreshadowed lower rates elsewhere can only be a matter of conjecture. Bowden *et al.*, offer an excellent summary of conditions up to 1914:

> The antagonisms which culminated in the World War were prominently associated with nationalism. But nationalism was more than a political ideal or a system of government. It involved conflicting economic ambitions for the control of natural resources, trade strategic areas, and regions for settlement and for the export of capital, combined with a desire for self-sufficiency in the face of an increasingly interdependent economic system. The stronger these nationalistic ambitions and desires became, the more intense were the antagonisms which they generated. As the nations of the Continent successively acquired modern techniques and forms of economic organization, the area of the competitive struggles was extended, while at the same time its intensity was increased. The spread of industrialism involved an increasing dependence of

[1] Heaton, Herbert, *Economic History of Europe* (New York: Harper & Bros., 1936), p. 677.

the industrialized nations on external supplies of food and raw materials, external markets for manufactures, and external opportunities for the investment of large surplus incomes.

There was serious disequilibrium between regions. The industrialized countries had scientific techniques and strong governments; the backward regions retained their primitive or traditional economic and political patterns. The countries of Europe also experienced disparities of opportunity for controlling and utilizing the trade and resources of the backward regions. It was this disparity which gave significance to the historic urge of the hinterland populations of Russia toward the seaways and to the ambitions of the Germans for "a place in the sun." The World War was preceded by an intensification of commercial, colonial, financial, and diplomatic rivalries.

Classical economic theory held that economic liberty, involving local, regional, and international freedom of exchange, would remove conditions of disequilibrium, bring about and maintain flexibility in economic relations, and furnish the best assurance of peace. The equitable operation of a regime of economic liberty called for a start from scratch and for the maintenance of fair competition; and certain regions, notably Great Britain, had initial advantages when the classical theory became popular. Nevertheless, even with grave limitations, the earlier period of extensive acceptance of the theory was exceptionally peaceful.[2]

The four years of World War I disrupted trade. The restrictions on trade, the contraband lists, the blockades, the priorities of essentials, the dislocation of markets, government buying and price fixing displaced the tariff as a key to international policy. Nevertheless, Great Britain did return to protection. France adopted her system of tariff increases through coefficients, and Russia placed all foreign trade under a state monopoly. Professor Heaton points out:

The post-war years were so abnormal that vigorous control of international trade was inevitable. Goods from countries with sinking exchange rates were so cheap in lands with steady currencies that the bargains must be kept out and the home industries "safeguarded." "Key industries" that had grown up during the War must not be exposed to the competition of more mature foreign rivals. Industries that had been swollen by War demands must not be allowed to shrink excessively if protection could prevent it. Unemployment, the need for revenue, and the ideal of self-sufficiency all made the building of high tariff walls popular politics. Further, there were more walls. Europe went into the war with twenty-two states, but emerged with twenty-nine, and 7,000 miles of new customs walls. New-found national pride and hatred of old rulers stimulated efforts to foster industries which could never serve more than a small domestic market . . . .[3]

---

[2] Bowden, Witt; Karpovich, Michael; and Usher, Abbott Payson, *An Economic History of Europe since 1750* (New York: American Book Co., 1937), pp. 676–77.

[3] Heaton, *op. cit.*, pp. 679–80.

In addition to these new states, and far more significant as later events showed, were the old states that were undergoing a national upheaval. There was, for example, Germany which had lost all of her colonies, France which pictured her glorious future as the owner once again of Alsace and Lorraine, Italy which began to see herself once again as a Roman Empire, and Belgium which had to plan her reconstruction. Then there was Spain, which had passed through the war as a neutral and emerged wealthier than at any time probably since the years immediately following the discovery of the treasure of the New World. A new Russia had arisen with new ambitions and a different economic system. Turkish influence had been forced from Europe. Even the Balkan states turned to tariffs, and Greece began to dream of restoring the age of Pericles. All in all, there was ushered in a period in which nationalistic ambitions were ripe for the return of mercantilism. That this giant returned with the force and characteristics of a Frankenstein, we, unfortunately, know today. That he was still following Machiavellian ethics we also know to our shame. We may call his accomplishments "extreme nationalism," "totalitarianism," "the corporate state," "Fascism," "the Nazi movement" or even, broadly, "communism." Adam Smith, however, were he to return today, would recognize his old opponent, mercantilism, and not realize that it had been dead since 1790 in so far as the philosophy of using economic means for national ends was concerned. The old opponent would be dressed differently, perhaps. He would appear to move more swiftly and to act on a larger scale. His mastery of propaganda would be greater, his use of finance more advanced. But except for surface changes, mercantilism returned after Versailles to plague the modern world as it plagued the world in earlier days.

The fact that mercantilism returned so much alive and with such astounding vigor suggests that Adam Smith never had killed him but had only succeeded in wounding him grievously. This is a thesis that we have already advanced. Alexander Hamilton and others had worked with a convalescent mercantilism, an invalid "just a shadow" of his former self —a mercantilism whose strength asserted itself in a tariff for protection— a tariff to build up a nation's industry and make for a degree of self-sufficiency. Ultimately, the tariff became a great weapon in economic international rivalry and was employed as a weapon of economic warfare and bargaining power. This subject we have covered in the preceding chapters.

The postwar depression, especially in the realm of agriculture, was responsible for keeping the war duties and increasing them materially in spite of the conclusion of more than a score of commercial treaties containing the most-favored-nation clause between 1922 and 1924. In 1921 the Emergency Tariff with high rates on agricultural products became the law in the United States, the Safeguarding of Industries Act was passed

in England, the Royal decree law established a new tariff in Italy, the Japanese tariff went into effect, and Switzerland announced a high set of duties. In 1922 the Fordney-McCumber Act, with its flexible provisions, displaced the Emergency Tariff; the Italian rates were increased greatly; a highly protectionist Spanish tariff became effective; and further increases were made in the Japanese tariff. Sharp increases went into effect in Argentina in 1923. Between 1925 and 1929, changes were enacted raising rates in Great Britain, France, Germany, Holland, Spain, and Japan.

With the depression passed, some observers hoped for a lessening of the nationalistic spirit and, with it, some moderation in tariff rates. But whatever might have happened in countries returning to normal was changed completely by the depression which the latter part of 1929 ushered in. As Liepmann has well described the situation:

> The outbreak of the world economic crisis in the autumn of 1929, in conjunction with the peculiar post-war difficulties of world economy (international debts and reparations problems) which were by no means overcome in 1929, gave a strong impetus to all agrarian protectionist tendencies in Europe. The increases of agrarian duties, which were decreed with particular severity during the three years, 1929, 1930, and 1931, by the leading import countries of industrial Europe, and the fall in agrarian prices produced a complete revolution in agrarian tariff levels for the year 1931, in comparison with those of 1913 and 1927.
>
> Tariff levels reached unprecedented heights. *If a tariff level over 30% was an exception in Europe in 1913, in 1931 such an exception was a tariff level under 30% or even 40%*, which of all the countries investigated was maintained only by Belgium, Sweden, and Switzerland. All the other countries of industrial Europe reached general agrarian levels of over 50%. Of special significance was the enormous increase in the tariff levels of the three greatest agrarian import markets (besides Great Britain) Germany, France, and Italy, of which German agrarian protection with a general tariff level of 82.5% took by far the lead.
>
> With the exception of Sweden, all the general agrarian tariff levels of agrarian Europe rose over 60%, Bulgaria, Poland, and Finland exceeding the 100% mark.[4]

Writing in 1927, Delle-Donne gives this summary of the causes of the European tariff upheaval:

1. The survival of the war spirit, which forced governments to enact unsound legislation with the object of making their countries as independent as possible of foreign nations. The survival of this spirit was further aggravated by the treaty of Versailles.

[4] Liepmann, H., *Tariff Levels and the Economic Unity of Europe* (London: G. Allen & Unwin, Ltd., 1938), p. 106. Translated from the German by H. Stenning.

2. The post-war crisis, which resulted not only from the destruction of wealth caused by the war, but also from the transformation of the production of war into peace production. These transformations entailed destruction of fixed capital, lack of circulating capital, difficulty in floating new issues of industrial securities, etc. Such transformations could not be effected under the pressure of foreign competition, and hence gave rise to the need for defensive measures.
3. The necessity, for social and political reasons, of maintaining the rate of wages at a high level, which led to an increase in the general cost of production and in the levels of protective tariffs.
4. The desire of the capitalist to preserve the high rate of profits incident to the war period.
5. Monetary causes, chiefly the necessity for defending domestic production against countries with depreciated currencies.
6. The necessity for having a sound basis for the negotiation of new commercial treaties to replace those which expired during the war.
7. Political reasons, such as those which impelled Great Britain to favor colonial goods and France to discriminate against German products. The action of the French was designed to handicap Germany economically in order to prevent her political resurrection.
8. Financial reasons connected with the critical situation of the budgets of the belligerent countries after the war, and the desire to increase revenue through higher customs duties.[5]

In 1930 a convention was signed at Oslo by Denmark, Norway, Holland, Sweden, and Belgium. Among other things, the signatories, later called the "Oslo Powers," undertook to establish a permanent basis on which to build their tariff relations and to notify each other regarding tariff changes. There were also conferences held by Bulgaria, Estonia, Hungary, Lithuania, Poland, Rumania, Czechoslovakia, and Yugoslavia, the agricultural countries of eastern Europe, in Warsaw, Bucharest, and Belgrade between August and November, 1930, for the purpose of discussing national controls over the sale of agricultural products and their export, particularly cereals. The countries of western Europe were asked to receive such exports and to extend a preferential treatment toward them.

The Hawley-Smoot Tariff came into the picture in the same year. It imposed additional duties on more than nine hundred items and, since most of these were on manufactured goods, the trade of Europe, particularly that of Germany, suffered. This law decided what direction tariffs would take. Within sixteen months following September 1, 1931, twenty-three countries had increased their rates by means of general revisions and some fifty countries had raised rates on individual items and groups of items. Among those adopting new laws were Canada, Cuba, Mexico, France, Italy, Spain, Australia, New Zealand, Holland, Switzerland, Eng-

[5] Delle Donne, O., *European Tariff Policies* (New York: Adelphi Co., 1928), pp. 88–89; see also Liepmann, *passim.*

land, Egypt, Japan, Norway, Portugal, Greece, Siam, South Africa, Belgium, Latvia, Nicaragua, Venezuela, and the Dutch East Indies. Later, in 1933, Sweden, Czechoslovakia, Poland, Germany, Hungary, the United Kingdom, and Norway followed.

The World Economic Survey, published by the League of Nations, describes the other restrictions during the years 1931–32 in the following language:

> The protectionist movement had set in so strongly by the middle of 1931 that markets were increasingly restricted. The higher United States tariff of 1930 had been followed by many other tariff systems; both France and Belgium introduced a system of licensing imports in the third quarter of 1931, Czechoslovakia did the same in July, and Sweden introduced a wheat monopoly in June. These and other systems of import controls, it should be remembered, were added to constantly higher tariff barriers, many of them being reprisals against the tariff barriers of other countries. By the end of 1931, licenses had led to quota or contingent systems, many countries had left the gold standard, others had thereupon reintroduced additional exchange-dumping duties, commercial treaties were being denounced, and cumulative restrictions were being placed in the way of international trade. A summary list of the main measures adopted will indicate both the universality and the complexity of trade restrictions.
>
> The first type consisted in the control of foreign exchange transactions to check any flight of capital and to conserve the available exchange resources for the most essential national requirements. Such controls were in force in Austria, Bulgaria, Czechoslovakia, Estonia, Finland, Germany, Greece, Hungary, Latvia, Yugoslavia, Argentina, Brazil, Chile, and India, while in Norway the banks exercised unofficial control. During the early months of 1932, Denmark and Roumania introduced control systems, but Finland abandoned such restrictions on December 31, 1931.
>
> More direct reduction of imports was achieved in 1931 by the introduction of quotas (Czechoslovakia, France, Italy, Latvia, Netherlands and Turkey); by prohibitions (Czechoslovakia, Denmark, Estonia, Poland, Turkey and Colombia); by state monopolies (Estonia and Sweden); by new import duties (Great Britain); by increased duties (Austria, Argentina, Australia, Belgium, Brazil, Bulgaria, Denmark, France, India, Italy, Latvia, Lithuania, Netherlands, Poland, the Union of South Africa, and Switzerland); and by customs surtaxes for depreciated exchange (Canada and France).
>
> In addition, the abandonment of the gold standard by Argentina, Australia, Brazil, Denmark, Finland, Great Britain, India, Japan, New Zealand, Norway, Portugal, and Sweden had considerably hampered imports into those markets. In addition to these countries, Bolivia, Chile, Greece, Siam, and Peru abandoned the gold standard in the early months of 1932. In many other countries, its maintenance was more nominal than real, and it was a truer representation of facts to say that in some half-dozen countries only was the gold standard maintained without special restrictions.[6]

[6] *World Economic Survey*, 1931–32 (Geneva: League of Nations, 1932), pp. 287–88.

In 1932 the League sounded the warning:

> Tariffs, quota systems, contingents, clearing arrangements, milling regulations, have destroyed free competition in the international market and have substituted for it a series of sheltered but inevitably weak producers for domestic markets. Such measures are encouraging production where it is costly and discouraging it where it is more efficient. If it is only by such measures as paralyze world trade that temporary shelter may be given to the threatened producers, such shelter may prove to be dearly bought in the long run.[7]

The same agency comments on the following year's developments:

> The history of commercial policy in the year 1933, consisting as it does almost entirely of a series of withdrawals from international economic co-operation, indicates that . . . . the national route to recovery is the one that has been followed.[8]

In 1934, the United States made amends for the Hawley-Smoot Tariff by undertaking a reciprocal trade program and generalized concessions which accompanied a world movement toward a less restrictive trade through such understandings. Agreements entered into during 1935 included those between Belgium and the United States, Belgium and France, Belgium and Germany, Belgium and Italy, Sweden and France, Sweden and Spain, Sweden and the United States, Poland and the United Kingdom, Canada and Germany, Norway and France, the Netherlands and the United States, Switzerland and the United States, the United Kingdom with Eire, India, Poland, Italy, Uruguay, and Turkey. Tariff wars between Germany and Poland, Czechoslovakia and Hungary, and a dispute between France and Portugal came to an end. Cuba, Guatemala, Haiti, and Ecuador showed a similar disposition by giving up their single-column tariffs and by adopting the multiple system. El Salvador had done this the year before.[9] There was some moderation shown by the legislation in the smaller European countries, in certain areas of the British Empire, and in Latin America. The other nations, however, especially Germany and Italy, continued their restrictive policies. Meeting in Paris, the Congress of the International Chamber of Commerce again sounded its warning that attempts at national self-sufficiency, generally pursued, invited "sure disaster"; and the League of Nations at the Annual Assembly urged that "effective steps might be taken with a view to the removal of impediments to the exchange of goods, and that such a removal is indispensable if the economic recovery of which signs are now apparent is to be developed."

The latter part of 1936 and the early months of 1937 might be described

[7] *Ibid.*, p. 98.

[8] *World Economic Survey*, 1933–34 (Geneva: League of Nations, 1934), p. 203.

[9] This account is based on "Foreign Tariffs and Commercial Policies during 1935," *Commerce Reports*, February 15, 1936.

as the lull before the storm. The Tripartite Agreement between Britain, France, and the United States announced September 25, promising co-operation through their exchange stabilization funds in order to restore international economic relations, was accompanied by the devaluation of the French franc. Inside of two weeks, Belgium, Switzerland, the Netherlands, Turkey, Italy, Rumania, Czechoslovakia, Japan, Siam, China, Greece, Brazil, and Egypt pegged their currencies to the dollar or the pound or undertook to manage them in order to maintain stability. Similarly, the spirit of the agreement won the co-operation of the British dominions and colonies, the Scandinavian and Balkan countries, and the leading South American states. Dr. Chalmers comments, "It was quite generally hailed by merchants as allowing more normal international price relations, and as giving that much-desired assurance of substantial stability in the financial basis of international transactions, both of which had been lacking for the past 5 years."[10] This left Albania, Germany, Bulgaria, Hungary, Lithuania, and Poland as the only European countries that did not devalue their currency since 1929; but except for Albania they were using exchange control.

Conditions improved following the Tripartite Agreement. Italy liberalized her tariff and exchange restrictions and entered into twenty-one bilateral agreements. Switzerland, the Netherlands, the United Kingdom, Japan, Germany, Latvia, Denmark, Czechoslovakia, and Belgium made more or less significant changes of one sort or another tending toward liberalization of trade. Four gatherings endorsed the removal of trade restrictions, as well—the International Chamber of Commerce meeting in Paris, the International Conference of American States in Montevideo, the Foreign Trade Council at Washington, and the Inter-Parliamentary Conference at London.[11] The League of Nations Assembly also showed a predisposition toward the United States type of trade liberation.

In May, 1937, seven countries of northwestern Europe, called the "Oslo Powers," entered a convention at the Hague for a collective attempt to reduce trade barriers. Belgium-Luxemburg and the Netherlands undertook to remove certain quota restrictions and not to establish new ones. Denmark, Norway, Sweden, Finland, and Netherland India engaged not to increase duties or introduce new restrictions on certain goods of the other signatories. Other governments were invited to join and some of the benefits were extended to other countries by the signatory powers. This agreement, however, was allowed to expire in the middle of 1938 because of world conditions, which were not favorable to renewal. Of great significance, moreover, was the announcement of the Netherlands that protective tariffs would be used, " . . . . the first avowal of such a

[10] *Ibid.*
[11] *World Economic Survey*, 1936–37 (Geneva: League of Nations, 1937).

policy on behalf of the traditionally liberal Netherland Government, although that country [had] been on a virtually protective basis . . . . since the early days of the depression."[12]

The trade improvement, 1936–37, unfortunately, was short-lived. Commodity prices reached their peak in March-April, 1937, after which they declined steadily. The political situation undoubtedly played its part. In March, 1938, Hitler annexed Austria; in September, Czechoslovakia was invaded. Memel was taken by Germany, Albania by Italy, and Poland was divided by Germany and Russia. In October and November, the Far Eastern situation became serious when Japan's answer to the United States protest against violation of the open door in China, was this: That the "ideas and principles of the past" are no longer applicable to the "new order" in Asia.

The year 1938 was, nevertheless, one in which trade agreements and commercial treaties continued to be made and become effective—the United States and the United Kingdom, Czechoslovakia, Ecuador, Venezuela, Chile, Greece, Iraq, Liberia, and Siam. There were also some tariff reductions by Mexico, Venezuela, Uruguay, Finland, and Turkey. But there were also some restorations of higher rates as well.

The Part Played by Commercial Treaties. Since commercial policy is controlled by nationalistic interest, it follows that no country will reduce tariff rates or other restrictions out of a sense of altruism, and it is also evident that the concept of sovereignty stands in the way of forcing another country to grant concessions. Where sovereignty is ignored, the task is relatively easy; but, where it is respected, there are only two other means open. The one calls for retaliatory measures to force the withdrawal or modification of the obnoxious restrictions. This usually leads to tariff wars, as we have seen. The other means is to offer a *quid pro quo*—an offer that suggests: You do this for me, and I will do that for you; or we will do this at the same time so as to give neither an advantage or a handicap. This second device is the treaty or trade agreement. It is, in a measure, a restriction of sovereignty, voluntary of course, although provision is always made for its denunciation by either power.

The treaty has proved to be the means, not only of winning commercial concessions, but of bringing about virtually all understandings between nations, and rights and privileges for nationals visiting, trading, or residing elsewhere. Treaties dealing with tariff reductions have played an important part in bringing about world movements toward freer trade. There have been hundreds of them. Some have had long lives, and some have lasted but one year. They have varied in form, too. Some have been unilateral, some bilateral, some multilateral. Some have contained the con-

[12] "Foreign Tariffs and Commercial Policies during 1938," *Commerce Reports*, February, 1939.

ditional form of the most-favored-nation clause, and some the unconditional form. Since they have never increased restrictions between countries, it may be argued that they represent the only peaceful way out of the paralyzing situation into which the world has plunged itself in recent decades.

The United States and Commercial Treaties. In the United States we have never played a very consistent game. We have always been eager to make treaties and enter agreements, and we have always been generous in our concessions. But we have never seemed to care what we did to those same signatories in our tariff laws. At one and the same time, we beckoned them with candy in one hand and a rock in the other. That such diplomacy is not successful can be read in the record.

Up to the time of the American Revolution, there was but one form of the most-favored-nation clause, namely, the unconditional form. But in 1778, our treaty with France contained the qualification that the treatment would be accorded "freely, if the concession was freely made, or on allowing the same compensation, if the concession was conditional." We held to this interpretation in spite of world opinion until 1923 when Secretary of State Charles Evans Hughes inaugurated a new series of treaties with the unconditional form. We have also recognized the principle of no discrimination against any country that does not discriminate against us.

Between 1824 and 1870 we made a series of one or more commercial treaties with all of the Latin-American states. All except the one with the Dominican Republic contained the most-favored-nation clause. In 1890 we offered treaties to countries producing coffee, tea, hides, sugar, and molasses for United States consumption. Most of Latin America (except Colombia, Venezuela, and Haiti) responded, as did some other countries. Costa Rica, alone, failed to ratify her agreement. In 1894 our tariff repealed the reciprocity provisions, much to the irritation of Brazil, Germany, and Austria, as well as other countries that restored their rates against us. In 1897, Count Goluchowski, the Premier of Austria-Hungary, actually made a proposal to other commercial nations in Europe to form a combination against United States trade. Yet we went along our way, blithely, with the Dingley Tariff and seemed surprised that Spain, Switzerland, and Russia raised their rates against us.

It was also irritating to foreign governments when we negotiated treaties with them, only later to reject them in the United States Senate. This happened with the Kasson series negotiated with Nicaragua, Ecuador, the Dominican Republic, Argentina, and France, as well as with the United Kingdom and Denmark in behalf of certain possessions.

On January 1, 1939, the United States had 18 treaties containing the unconditional most-favored-nation clause in force; 14 executive agreements with the unconditional form; 17 reciprocal trade agreements; and 14

treaties containing the conditional most-favored-nation clause. During the year, the treaty with Japan was allowed to expire, notice of its abrogation having been given six months earlier.

The Generalization of Tariff Concessions. On April 1, 1935, the Department of State released a statement on the policy of the United States concerning the generalization of tariff concessions under the trade agreements.[13] After explaining that we have a twofold purpose in our commercial policy, namely, to bring about "the mutual and reciprocal reductions in trade barriers" and "the removal or prevention of discriminations against American commerce," it gives the "keynote" of our foreign policy. It is "equality of treatment": "The United States neither seeks nor accords preferential, discriminatory treatment—it asks only that a foreign country treat American commerce no worse than it treats the commerce of any third country and, in turn, accords equality of treatment to the commerce of foreign countries."

In this way, concessions go far beyond the countries in the trade agreements and, by virtue of the network of most-favored-nation clauses, exert a positive influence toward the lessening of trade restrictions.

Treaties from 1931 to 1939. Mr. Richard C. Snyder has carried on what must have been very tedious research in analyzing the commercial treaties entered into between 1931 and 1939.[14] His findings, however, are interestingly reported and are of the deepest significance. His data consisted of over 510 bilateral conventions, treaties, and exchanges of notes which he reckons to be "probably one-half of all such negotiations during these years." This number, moreover, was about twice as large as the number negotiated between 1919 and 1930. The most-favored-nation clause was found in 227 agreements; "actual tariff rates or provisions concerned specifically with tariffs" in 168; clearing or payment accords in 94; quota provisions in 185; foreign exchange control in 79; and so on.

From the study, he concludes that the most-favored-nation treatment, although promised in 42 per cent of the treaties is no longer "of ultimate scope," except in the minority of cases; that more agreements are being made of a bilateral nature which precludes that treatment; that tariffs are no longer the chief barrier to international trade; that quotas, which were hardly known prior to 1931, had become a more frequent subject of negotiation than tariffs; that with the exception of the United States, "the new measures of trade control are confined to no one country or area of the world"; that most of the agreements have been of brief duration, which reflects the instability of trade; that bilateralism is currently the trend; and that "it is no longer correct to speak of quotas, exchange controls,

[13] The text may be found in *Commerce Reports*, April 6, 1935.

[14] "Commercial Policy as Reflected in Treaties from 1931 to 1939," *American Economic Review*, Vol. XXX, No. 4 (December, 1940), pp. 787–802.

and bilateral trading as 'temporary' measures." He also suggests that the new trade restrictions are more restrictive than the tariff had been. "It can be assumed that most governments in the world have the power to subjugate external trade to complete control, beginning with the exclusion of foreign products from the domestic market and ending with the complete regulation of internal production." All in all, "the treaties and agreements . . . . represent in the last analysis an extreme decrease in international specialization, hitherto the basis of most trade connections."

The Economic Conferences and Conventions. In 1927 there convened at Geneva the delegates of fifty nations called together by the League of Nations as a World Economic Conference. They met not in the midst of a world depression but at a time, nevertheless, when certain symptoms had become apparent. International trade had not kept pace with domestic trade, agricultural prices were low and out of balance with industrial prices, and tariff restrictions were increasing. Certain industries were depressed, and the postwar normal had not proved as promising as it had been imagined. The conference was emphatic: "The time has come to put an end to the increase in tariffs and to move in the opposite direction." This was to be accomplished by the action of individual states, bilateral agreements, and common action which might follow an investigation by the economic division of the League itself. The tariff, it was reasoned, was no longer exclusively a matter of national sovereignty but had become a matter for parallel or concerted action by a group of nations. A country's budgetary equilibrium, it was said, rested on a precarious base if that base was a high tariff. The conference, however, refused to go on record as to the merits of protection and free trade. Tariff changes should not be made suddenly. Tariff nomenclature should be standardized. Dumping should be reduced to a minimum because it created insecurity. Export duties should not be unduly burdensome; neither should they be discriminatory nor intended to place a special burden on the foreign country needing the material so taxed. Subsidies were obstacles to trade and were to be avoided.

The Fourth Congress of the International Chamber of Commerce and the Third Pan-American Commercial Conference in Washington met in the same year and had a number of common views on the tariff and commercial restrictions. Little positive good can be traced to these conferences. What they said was probably already known; but nationalistic statesmen could not, or would not, hearken. There were some commercial treaties, but the tariff reductions were more apparent than real. Liepmann thus describes the aftermath of the World Economic Conference:

This half-hearted attempt to carry out the recommendations so enthusiastically adopted by the Conference in 1927 soon aroused alarm among the most experienced economists in Europe, especially as the signs of the turn in the

trade cycle were visible in 1929. The Economic Committee of the League of Nations pressed for more collective action for the lowering of tariff walls. It was characteristic of the situation that the committee appointed by the Council of the League to make preparations for fresh economic action was obliged to confess in its report to the latter (September, 1929):

"We are now nearing the end of 1929 and are obliged to admit that in spite of a few sporadic efforts no decisive movement has occurred in this direction."[15]

The World Economic Conference had, however, called enough attention to "the deplorable results" of export and import restrictions for the representatives of thirty-five nations who assembled at Geneva, October 17 to November 8, 1927 to draw up a convention and protocol for the "Abolition of Import and Export Prohibitions and Restrictions." It was signed by the United States on January 30, 1928, and supplementary agreements were also signed on July 31, 1928. Its ratification was advised by our Senate with reservations on September 19, 1929, acted upon by the President the next day, and proclaimed on March 6, 1930.

The convention recited that

import and export prohibitions, and the arbitrary practices and disguised discriminations to which they give rise, have had deplorable results, without the grave drawbacks of these measures being counterbalanced by the financial advantages or social benefits which were anticipated by the countries which had recourse to them;

Being persuaded that it is important for the recovery and future development of world trade that governments should abandon a policy which is equally injurious to their own and to general interest;

Being convinced that a return to the effective liberty of international commerce is one of the primary conditions of world prosperity.[16]

Accordingly, the signatories undertook to abolish "within a period of six months from the date of the coming into force of the present Convention, ... all import and export prohibitions or restrictions, and not thereafter to impose any such prohibitions or restrictions." The convention also noted certain exceptions that were to be allowed while fourteen of the signers also asked for special exemptions. For example, the United States retained its ban on the export of helium gas and a number of countries singled out scrap iron, scrap metal, etc. Another exception of a general nature permitted the use of restrictions in extraordinary or abnormal times. As late as September 30, 1929, only seventeen out of the required eighteen countries had ratified the convention; and a new conference held

[15] Liepmann, *op. cit.*, p. 348.

[16] The text appears in *Treaties, Conventions, International Acts, Protocols, and Agreements between the U.S. of America and Other Powers, 1923–1927* (Washington, D.C.: U.S. Government Printing Office, 1938), Vol. IV.

in December, 1929, failed to get the necessary agreement. Then, too, some of the signers made their ratification conditional upon others which were not received. There can be no doubt, however, that the gravity of the situation was well understood. Had the convention been signed at the earlier date, the terms would have become binding on January 1, 1930.

Other Conferences. After 1929 the foreign trade of the twenty-four leading countries dropped at the rate of $10,000,000,000 annually for three years from $52,895,000,000 in 1929 to $20,051,000,000 in 1932. Of these countries, seven were creditor nations—the United States, Great Britain, France, the Netherlands, Belgium, Switzerland, and Sweden—and seventeen were debtor nations. The two groups saw different dangers for themselves and naturally tried by means of legislation to save themselves. Both groups, but especially the latter, sought to cut down imports in order to better the relative position of their exports and to improve their trade balance. But since one country's exports are another country's imports, the situation became even more aggravated. The effects of this insulation against outside influences were reflected in the price of wheat. Wheat is a commodity that has a world price fixed in the Liverpool market. Under conditions of unrestricted trade, the variations in price should be, according to theory, only that of transportation costs. Yet, in many countries, prices varied in January of 1929 from $1.13 to $1.64, and for the same month in 1932 from $0.44 to $1.79. The *World Economic Survey* has well characterized this as the "retreat from international economic co-operation."[17]

The conference of the agricultural states of eastern Europe, already referred to, led to preferential treaties with Germany, Austria, and France, conditioned on the lack of protest from overseas sources of grain. This merely invited such objections so that these agreements never became effective. Another economic conference, attended by representatives of twenty-six European states, met in 1930 to discuss the trade situation. Nothing was accomplished. Great Britain, Germany, Switzerland, Holland, and a few other countries sought tariff reductions, while France and Italy stood for protection. The proposal of Britain that all the countries reduce their rates simultaneously on the same items, such as textiles and machinery, was ignored. Even Holland's suggestion that the free trade countries promise to remain on that basis in return for concessions by protectionist states fell on deaf ears.

In 1931 a proposal was made for an Austro-German customs union but this got no further than the conference stage when opposition from other European states, principally France and Italy, asserted itself. In February, 1933, a convention was drawn up, known as the "Convention of Ouchy." It was fostered by Holland and Belgium and sought the gradual reduction

[17] *World Economic Survey,* 1931-32 (Geneva: League of Nations, 1932), p. 137.

of tariff barriers. But not a single European nation would sign. Accordingly, the nations of Europe seemed unable to co-operate either as a large group or as smaller groups.

The Background of the World Monetary and Economic Conference, June 12–July 27, 1933. The last attempt of the nations of the world to do something collectively about international commercial policies took the form of the World Monetary and Economic Conference. In spite of the failures of other conferences, great hopes were held out for this one—hopes fostered by despair and hopes fostered by the strong endorsement of President Roosevelt. The hope of despair was summed up in a report of the Liverpool Chamber of Commerce less than two months before the conference convened. Characterizing it as probably the most important gathering since Versailles and calling on the nations of the world to make any recantations or sacrifices that might be necessary, the report says, in part:

> We have already passed the stage when we have started to neglect trade. It is being made the catspaw in the game of national ambition. As long as we persist in avoiding to reinstate it in the dominant position which it should hold as a productive source of wealth by so much nearer do we come to allowing the social order to become endangered.
>
> The whole basis of international relationship is resting on a fabric of complete and insecure artificiality. Trade, such as it is, is being cajoled to run, then, only with difficulty through constricted channels, while the credit of many nations is bolstered up by the most transparent subterfuges.
>
> Almost every nation totters on the brink of the chasm of insolvency, with budgets heaping ever increasing burdens on the shoulders of the taxpayers, depleting capital resources and stifling initiative and enterprise.
>
> Every effort of the nationals of one country to trade with those of another is thwarted.
>
> The people's need and demand is greater than ever, which is one of the fundamentals of trade recovery. But no matter whatever the need or anxiety of the individual may be, it is ruthlessly beset by limitations coming from the rigorous restrictions imposed by the policies of governments. The negation of trading has already brought the world to a condition of distraction which, if pursued, must eventually bring consequences of the direst severity.

When the conference was first proposed in 1932, the Hoover administration had stated the willingness of the United States to participate but indicated that two subjects would be taboo—anything that would involve the United States tariff or the war debts owing to this country. Now since both of these subjects underlay some of the world's trouble, their exclusion would be much like a patient consulting a doctor with the preliminary warning that no examination is to be made of the heart or lungs.

With the advent of Roosevelt, the proponents of the conference must

have breathed easier, especially after he began a series of meetings with representatives of Great Britain and France, and then invited Italy, Germany, Japan, China, Brazil, Chile, and any other nations planning to attend the London Conference to consult with him. On April 26, 1933, he issued a joint statement with Premier Ramsay MacDonald who had come to Washington. Former Premier Heriot came on behalf of France at the same time. An agreement with Guido-Jung, the Italian Minister of Finance and personal representative of Mussolini, was announced on May 6. On the same day a joint statement with the Argentine ambassador was made public.

The Conference. Everything of a surface nature seemed to promise success for the London Conference. It was opened on June 12 by King George. It was the largest conference of its kind ever held. Sixty-four nations were represented by 168 delegates, who included eight prime ministers and 100 cabinet ministers. There were close to 150 experts, 1,000 assistants, and 600 newspapermen. To house the conference, the huge, and as yet unoccupied, Geological Museum far from the heart of London was pressed into use. It was not fitted for the purpose. But far more serious was the fact that London was in the midst of a "Buy-British" campaign; and this slogan struck the delegates from thousands of windows as they went to and from the deliberations, which were intended to get rid of just this sort of thing—an unfortunate breach of hospitality and portentous of the results of the deliberations. But this type of inconsistency in commercial relations is not unusual. Had anyone lifted up the canceling machines which daily informed Britishers to "Buy British," they would have seen the words, "Made in U.S.A." Just as unfortunate for the conference, perhaps, was our reminder to thirteen nations just two days before the opening that they owed us war debts.

The agenda of the conference had been worked out by experts appointed by the League of Nations. It consisted of six parts:

1. Monetary and Credit Policy
2. Prices
3. Resumption of the Movement of Capital
4. Restrictions on International Trade
5. Tariff and Treaty Policy
6. Organization of Production and Trade

In addition, delegates interested in topics not to be discussed at the main conferences had certain plans for satellite meetings dealing with war debts, wheat, silver, etc. There was one other preliminary factor. Before the opening of the conference the United States had succeeded in persuading sixty-one nations, accountable for 90 per cent of international trade, to declare a tariff truce for the duration of the meetings, subject to

the right to withdraw after July 31, 1933, on a month's notice. It was the hope of the proponents that national legislation of a provocative nature might be avoided thereby and that the psychological effect would be good. Technically, the first session ended in a recess and the truce was to be continued. The truce, however, did not put a halt to the tariff wars nor to retaliatory measures by Germany, Portugal, Egypt, India, China, and others. When the conference proved a failure, all the parties denounced the truce, and tariffs even of free trade countries started upward.

The Results of the Conference. We have already mentioned the fact that the conference was a failure. The greatest attempt to swing the world toward freer trade proved unsuccessful. What the conference did, of course, was to diagnose once again the economic ills of the world. There were resolutions on international indebtedness other than intergovernmental, on central bank co-operation, on gold, on silver. There were condemnations of quantitative restrictions in international trade, subject to reservations by some delegates. Tariffs were said to be too high; the most-favored-nation clause in its unconditional and unrestricted form was urged upon the conferees. Reports were submitted on certain products such as dairy products, sugar, wine, coffee, cocoa, timber, coal, copper, and tin. That dealing with wine favored propaganda to bring about its greater consumption. No conclusions were reached on shipping subsidies. Indirect or perhaps disguised protectionism was condemned. Sanitary regulations and marks of origin were discussed.

The satellite conventions proved more successful. On July 22 the delegates of India, China, and Spain, the countries holding or using the large stocks of silver, signed an agreement with those from Australia, Canada, Mexico, Peru, and the United States, the principal producers. It provided that between January 1, 1934, and January 1, 1938, India was not to sell more than an average of 35,000,000 fine ounces a year; Spain was not to sell more than 5,000,000 fine ounces a year; and China was not to sell any of the silver resulting from demonetized coins for four years. The silver producing countries promised not to sell any silver and to buy or withdraw from the market a total of 35,000,000 fine ounces of new silver annually.

The international wheat agreement, another satellite convention, was signed on August 25, 1933, by twenty-one nations. Argentina, Australia, Canada, and the United States accepted an export figure for 1933–34 of 560,000,000 bushels and agreed to limit their exports during the following year. Bulgaria, Hungary, Rumania, and Yugoslavia were also given export quotas. Soviet Russia's quota was to be fixed. The wheat importing countries promised not to encourage increased acreage at home, but to promote the consumption of wheat and its products, to adjust tariffs when the price of wheat reaches and maintains 63.08 cents for four months. The

representatives of the British Empire also took advantage of their presence in London to express satisfaction with the Ottawa agreements and to declare themselves on problems connected with the conference itself.

The Pan-American Conference. In Chapter XXI, attention has been given to the attempts of the Pan-American Conferences and other meetings dealing with Pan-American interests to improve commercial policies among the nations of this hemisphere. These conferences have been successful in bringing about a much better attitude toward tariffs and trade restrictions than exhibited in the world at large. There have also been groupings of Latin-American countries that have lowered or removed commercial restrictions among their members. Numerous commercial treaties have been signed likewise. All of this influences world policy especially through the most-favored-nation treaties, which tend to spread the benefits of concessions.

Proposals for Freer Trade through Modifications of Sovereignty. Just as nationalism was the force that brought principalities and regions together into the consolidated states we know today, so industrialism has compelled these states to look beyond their boundaries for raw materials and markets. But going beyond boundaries places a state at the mercy of another sovereignty. Hence, the next step in world evolution, as seen by some observers, is the industrial basis for sovereignty rather than the nationality basis. They would picture a "United States of Europe" instead of a Europe with a score of nations each occupying an area woefully inadequate for industrialism.

This concept might sound strange to the people of Canada, Brazil, the United States, Russia, and China where the areas are enormous and the raw material supplies, known and potential, are adequate. But except for the barriers of nationality, which are very formidable, observers can picture such an accomplishment in Europe where some of the sovereign powers are so small that it is possible to fit five of them in the single state of Pennsylvania. Yet each has its tariff, its armed forces, its national ambitions and animosities.

The plan for the United States of Europe is not new. It has appeared in economic writings as an economic union rather than a political union. The German economist, Adolf Wagner, mentions it. Writing forty years ago, he recognizes the conflicts of interests in a federal state, as opposed to a compact and thoroughly homogeneous state, and warns that these antagonisms—national, religious, political, and economic—must be taken into account when considering

> such a plan, for example, as that of an economic union of Central Europe, or perhaps of all Europe (leaving out only Russia, and, if need be, the British Isles), however constituted: a plan which, for that matter, decidedly appeals to

me, since its realization strikes me, as it does many others, as an eventual necessity, almost as a vital issue for cultural Europe (Kultureuropa). I would not, therefore, question the eventual realization of such a scheme. But precisely in such an "economic union"—I intentionally do not use the term "customs-union"—the conflicting interests, for instance, of French, German, Italian agriculture, at least in the essentially agricultural sections of those countries, as opposed to such sections of Hungary, Galicia, Rumania, etc., stand out in bold relief. The like would hold in regard to the conflicting interests of the highly developed industrial regions of that complex of nations. It may be that for the realization of such schemes, and for the permanent maintenance of such an economic union, those economic factors offer difficulties quite as great as those presented by the financial, or even by the political elements of the case.[18]

It might have developed from the Napoleonic domination of Europe if that domination had lasted long enough.

Hitler's Plan for Europe. A "United States of Europe" has been also associated with Hitler whose domination of all of Europe, either through actual invasion or pressure, was accomplished in a very short space of time. Even Italy had come under the German sway to such an extent that at least one issue of Italian stamps in 1941 pictured both Hitler and Mussolini—an unprecedented action on the part of a "sovereign" nation. We have seen the economic dependence as well. The Hitler plan for a "United States of Europe" pictured Berlin and Germany the center. The subjugated states, such as France, Belgium, Holland, and so on, were to retain certain powers of their own over internal affairs. They were to keep their national currencies, meet their own expenditures and "national" debts through their own system of taxation (without the use of customs tariffs, of course). Customs between the former states were to be controlled by Berlin and subjected to gradual reduction until they would be abolished entirely.

Production was likewise to be planned from Berlin. Each state was to be assigned its particular production jobs. At first it was planned to de-industrialize all food-producing centers but this plan is said to have given way to the concentration in Germany alone of all heavy industry. The former states would find themselves much like colonies—compelled to sell their agricultural produce to Germany and compelled to buy their manufactured goods from her—and the total production of all of Europe would be disturbed. The goods available for export were also to be under the control of Berlin who would sell them on her own terms and only to countries willing to trade under prescribed conditions. Her position as sole buyer and seller for 325,000,000 people could be relied upon to give her such bargaining power. The success of the plan was said to envisage the

[18] Printed in Taussig, F. W., *Selected Readings in International Trade and Tariff Problems* (Boston: Ginn & Co., 1921), p. 347.

control of Africa as well, as a source of raw materials not found in Europe.[19] These proposals, of course, were contrary to all the public statements of our leaders as to what kind of world was to follow the war and our unwillingness to carry on trade with totalitarian economies.

The Roosevelt-Churchill Eight-Point Peace Aims. On August 14, 1941, the eight-point peace aims, formulated by President Roosevelt and Prime Minister Churchill in their secret and dramatic meeting at sea, were announced:

1. Opposition to forceful territorial conquest
2. Guarantees of freedom of the seas
3. "Improved labor standards, economic advancement and social security"
4. Access for all, "victor or vanquished," to world trade and raw materials
5. Restoration of their chosen forms of government to people "who have been forcibly deprived of them"
6. Neither Britain nor the United States seek "aggrandizement, territorial or other"
7. Freedom for all from "fear and want"
8. Disarmament of the Axis powers after the war

The first seven held a very definite relationship to the problems of freer international trade, and all of them were opposed to any "United States of Europe" based on force or German hegemony.

The Federal Union Proposal. In March, 1939, Clarence K. Streit published a book, entitled *Union Now*.[20] Mr. Streit is a newspaper reporter, born in Montana. He spent ten years at Geneva "covering" the League of Nations for the *New York Times*. While there, he saw the League at work and realized its shortcomings. His ideas, therefore, deserve study and consideration. They should not be dismissed by anyone who has traced the economic struggles among nations and the setbacks suffered by movements toward better relationships, nor should the main features be lost because the world situation has upset the details.

Briefly stated, Mr. Streit's thesis, as originally stated, was this: Leagues of nations have never been successful because they are leagues of states instead of governments of men. Federations, on the other hand, have worked. The league idea, for example, failed under the Articles of Confederation, but federations have proved successful in the United States, Switzerland, South Africa, Australia, Canada, and elsewhere. The arguments that are brought forward against a federation of nations today are the same advanced at the time the Articles of Confederation were in force against the Constitution. The League of Nations is not adequate but cannot be abandoned until something better takes its place.

---

[19] *The Times*, London, June 10, 1941.

[20] New York: Harper & Bros., 1939. See also Curry, W. B., *The Case for Federal Union* (Harmondsworth, England: Penguin Books, Ltd., 1939).

He therefore proposed that the democracies of the world unite, not to form a super-state, but to form a state like that formed by our forty-eight states. The fifteen more experienced democracies that he suggested as a nucleus were the United States, Canada, the United Kingdom, France, Ireland, Switzerland, Belgium, the Netherlands, Norway, Sweden, Denmark, Finland, Australia, New Zealand, and the Union of South Africa. These democracies are peopled by persons most of whom can read English or French or both. Moreover, not one of these nations had been at war with any of the others for more than one hundred years. They did 70 per cent of their foreign trade with each other and had the same basic ideas of individual freedom and representative government. They owned 60 to 95 per cent of all essential war materials; hence, no nation or group would dare attack their union. The government of the "Union" would be vested in an executive consisting of a premier and a board of five members, three to be elected by the people, one by the "House" and one by the "Senate." The premier would be selected by the board. The senate would consist of at least two senators from each country with an additional weighting for large populations—four for France, four for England, and eight for the United States. The house would number one representative for each million people to be elected by popular vote. Colonies or dependencies would become territories of the union, eligible to membership when they developed into self-governing democracies. The powers to be transferred to the union government would be five in number—union citizenship, union defense force, union money, union free trade area, and union postal and communications system.[21]

The Bretton Woods Monetary Agreements of 1944. As we have pointed out before, one of the major problems of international trade and finance is to find adequate means of payment in terms of the seller's monetary system for goods and services purchased. A scarcity of such means (foreign exchange) is an even more effective deterrent than a high tariff or quota. The inability of foreign buyers in recent decades to obtain sufficient dollar exchange has curtailed our exports and complicated our credit problems. At the same time, our importers have suffered because official rates of exchange in other countries (that is, the price for their currencies) have made prices of goods and services almost prohibitive. The same has held true for all nations. Various attempts in the thirties by individual nations in the form of stabilization funds and bloc actions by some nations have helped the situation only to a degree.

An attempt to find an international solution to this condition was under-

[21] It is not our purpose here to raise the numerous questions that such a proposal raises in the reader's mind, nor to answer the objections that must undoubtedly arise, since this would take us too far afield. But if it proved feasible, world trade would be freer.

taken at a conference held at Bretton Woods,[22] New Hampshire, in the summer of 1944. An International Monetary Fund (called the "Fund") was proposed. It was subsequently ratified and implemented at Savannah, Georgia, during March of 1946 and was prepared to begin operations in 1947. The Fund consists of $8,800,000,000 contributed by the member-nations. Initially, each was to pay in 25 per cent of its quota or 10 per cent of its net official gold and dollar holdings, whichever was smaller. The purposes of the Fund, stated in Article I of the agreement are these:

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems
2. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy
3. To promote exchange stability, to maintain ordinary exchange arrangements among members, and to avoid competitive exchange depreciation
4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade
5. To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity
6. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members

A second pressing problem of concern to freer commercial intercourse was taken up likewise at Bretton Woods, namely, the availability of long-term international loans for the purposes of postwar reconstruction and international development. As a solution, the International Bank for Reconstruction and Development (called the "World Bank") was proposed. The aims of the World Bank are stated in its articles:

1. To assist in the construction and development of territories of members by facilitating the vestment of capital for productive purposes
2. To promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors
3. To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories

[22] See Appendix B for the reaction of economists to Bretton Woods.

4. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first
5. To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy

With an authorized capital of $9,100,000,000 the Bank has thus become the possible instrument for sound financing and may be regarded as constituting a forward step in international relations. The Bank became a legal entity at the same time as the Fund but started its operations on June 25, 1946. Table 61 shows the subscription and voting power (exercised by the governors) of member-countries. Applications have been made thus far for $2,310,000,000. By the end of 1947, however, total loans actually made are expected to be in the neighborhood of $635,000,000. Of course, a great deal depends upon the international situation. The difference in the sums may be explained by the fact that some of the requests have been made in terms of borrowing over several years, while the Bank prefers to emphasize the annual approach—at least in the beginning of its career. Another reason is that the Bank is not willing to loan the maximum amounts that have been requested by a few countries until it can get some picture as to how many countries plan to negotiate loans. France and the Netherlands have each asked for $500,000,000. Denmark wants $50,000,000 with which to buy coal, steel, and industrial products in the United States and to further the mechanization of Danish agriculture. Poland has made an informal application for a loan of $600,000,000 to be used over a three-year period as a recovery fund and to modernize her coal mines, which she hopes to make one of the important resources of Europe.

Some idea of the public attitude toward the Bank may be obtained from the response made to its first announcement of the availability of bonds in the United States. On July 15, 1947, the Bank officials made the announcement of $100,000,000 worth of ten-year 2¼ per cent bonds, due July 15, 1957, and $150,000,000 worth of 25-year 3 per cent bonds due July 15, 1972, with interest in both cases payable semiannually. The sale was in the hands of some 1,600 dealers, the largest co-operative effort ever undertaken in this type of market operation. Although each advertisement in the public press carefully pointed out that "this announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Bonds," and mentioned, too, that copies of the prospectus were obtainable, the public reception was such that the very next day the issue had been heavily oversubscribed and the subscription books closed. Obviously, few, if any, persons had taken the trouble to send for the prospectus.

TABLE 61

SUBSCRIPTIONS AND VOTING POWER (EXERCISED BY THE GOVERNORS) OF MEMBER-COUNTRIES*

COUNTRY	FUND		BANK		
	Quota (in Millions of U.S. Dollars)	Number of Votes	Subscriptions (in Millions of U.S. Dollars)	Number of Shares	Number of Votes
Belgium	225	2,500	225	2,250	2,500
Bolivia	10	350	7	70	320
Brazil	150	1,750	105	1,050	1,300
Canada	300	3,250	325	3,250	3,500
Chile	50	750	35	350	600
China	550	5,750	600	6,000	6,250
Colombia	50	750			.
Costa Rica	5	300	2	20	270
Cuba	50	750	35	350	600
Czechoslovakia	125	1,500	125	1,250	1,500
Denmark	68	930	68	680	930
Dominican Republic	5	300	2	20	270
Ecuador	5	300	3.2	32	282
Egypt	45	700	40	400	650
El Salvador	2.5	275	1	10	260
Ethiopia	6	310	3	30	280
France	450	4,750	450	4,500	4,750
Greece	40	650	25	250	500
Guatemala	5	300	2	20	270
Honduras	2.5	275	1	10	260
Iceland	1	260	1	10	260
India	400	4,250	400	4,000	4,250
Iran	25	500	24	240	490
Iraq	8	350	6	60	310
Luxemburg	10	350	10	100	350
Mexico	90	1,150	65	650	900
Netherlands	275	3,000	275	2,750	3,000
Nicaragua	2	270	0.8	8	258
Norway	50	750	50	500	750
Panama	0.5	255	0.2	2	252
Paraguay	2	270	0.8	8	258
Peru	25	500	17.5	175	425
Philippine Commonwealth	15	400	15	150	400
Poland	125	1,500	125	1,250	1,500
Union of South Africa	100	1,250	100	1,000	1,250
United Kingdom	1,300	13,250	1,300	13,000	13,250
United States	2,750	27,750	3,175	31,750	32,000
Uruguay	15	400	10.5	105	355
Yugoslavia	60	850	40	400	650
Total	7,397.5	83,745	7,670	76,700	86,200

* *Foreign Commerce Weekly*, May 18, 1946, p. 4.

Economic Provisions of the U.N.O. The ultimate basis for freer international intercourse is the assurance of world peace. Threats of war, war, and the aftermaths of war are disruptive. Hence, any international

organization which cuts down the hazards of war and provides means for the settlement of disputes before they reach the war stage contributes mightily to commercial relations. In a very real sense, then, all of the provisions of the Charter of the United Nations Organization have an influence on commercial policies. This charter was written at Dumbarton Oaks, Washington, D.C., in 1944 and was put in final form and signed by fifty nations at the San Francisco Conference on June 26, 1945. It became effective when the necessary twenty-nine ratifications were deposited on October 24, 1945.

The charter contains some special economic references. One of the declared purposes is "to achieve international cooperation in solving international problems of an economic . . . . character." One of the tasks assigned to the General Assembly is to "initiate studies and make recommendations for the purpose of . . . . promoting international cooperation in the economic field." One of the sanctions to be employed against an offending nation is to be "complete or partial interruption of economic relations" with the offending nation or nations. Chapters IX and X of the charter deal directly with international economic and social co-operation and with the work of the Economic and Social Council. The latter consists of eighteen members appointed by the General Assembly. Specifically mentioned are "higher standards of living, full employment, and conditions of economic and social progress and development," as well as the "solution of international economic . . . . problems."

The success of the U.N.O. is unpredictable. Whether its fate will be that of the League of Nations or not, remains to be seen.

Background of the Proposed International Trade Organization. In December 1945, our government issued some "Proposals for Expansion of World Trade and Employment." The proposals suggested the founding of an International Trade Organization of the United Nations whose members would agree to conduct their commercial relations in accordance with the rules set forth in the Charter of the organization. The latter was included in the proposals. The rules were intended to govern trade barriers, restrictive business practices, intergovernmental commodity arrangements and international aspects of domestic employment policies. The proposals were published and transmitted to other governments for their informal consideration. At the same time, these governments were invited to join in negotiating reciprocal trade agreements that would result in multilateral concessions and thus supply an impetus to freer postwar commercial policies.

In February, 1946, the Economic and Social Council of the United Nations adopted a resolution calling for an international conference on trade and employment to consider the creation of an International Trade Organization. The Council then established a Preparatory Committee of

nineteen countries (whose trade accounted for 85 to 90 per cent of total world trade) to arrange for the conference and to prepare a draft for such an organization. The eighteen countries included the same countries which the United States had invited to participate in the reciprocal multilateral trade negotiations (Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxemburg, the Netherlands, New Zealand, Norway, Union of South Africa, Union of Soviet Socialist Republics, and the United Kingdom). The United States, of course, brought the total to nineteen.

The Preparatory Committee met in London in the fall of 1946. The principles for which the United States delegation stood, as outlined by Dr. Clair Wilcox, chairman of our delegation, were five in number:

1. Existing barriers to international trade should be substantially reduced, so that the volume of such trade may be large—larger, certainly, than it was between the two world wars.
2. International trade should be multilateral rather than bilateral.
3. International trade should be nondiscriminatory—a principle that would require that every nation give equal treatment to the commerce of all friendly states.
4. Prosperity and stability, both in industry and agriculture, are so intimately related to international trade that stabilization policies and trade policies must be consistent, each with the other.
5. The rules that govern international commerce should be so drafted that they will apply with equal fairness and equal force to the external trade of all nations, regardless of whether their internal economies are organized upon the basis of individualism, collectivism, or some combination of the two. There can be no question concerning the right of every nation to adopt and to maintain, without external interference, the form of economic organization that it prefers. But it should be agreed that this diversity of economic systems *need not and can not be permitted to split the world into exclusive trading blocs.*

The Proposed International Trade Organization. The proposals for an International Trade Organization (I.T.O.) at the time of the London Conference were contained in seven chapters and eighty-nine articles. Chapter I contained a broad statement of purposes. Chapter II explained membership. Chapter III dealt with the maintenance of employment. Chapter IV provided for the reduction of governmental barriers of all kinds and for the elimination of trade restrictions. Chapter V contained proposals on cartels and combines. Chapter VI regulated the making of intergovernmental agreements dealing with surplus commodities. Chapter VII created the machinery for an I.T.O.

Now let us look at the essence of each of these chapters and then state in a fairly general way what changes were made by the London Confer-

ence. Chapter I called for the co-operative solution of trade problems, the expansion of trade opportunities, the extension of aid in industrializing underdeveloped countries, the reduction of tariffs and other trade barriers, and the elimination of trade restrictions.

Membership (Chap. II) was to include the original members represented at the conference which accepted the I.T.O. by a certain date, and others brought in, subject to I.T.O. approval, afterward. Each member was to undertake all means appropriate to their several economies and conditions to maintain a high level of domestic employment (Chap. III) since such a condition is deemed essential to the success of I.T.O. and free international relationships.

General international commercial policy was laid down in Chapter IV. It included plans for the reduction, elimination, or modification of such governmental barriers to international trade as tariffs, embargoes, quotas, exchange restrictions, subsidies for exports, state trading enterprises, and discriminations. The general principle of emergency conditions was recognized. Accordingly, the temporary use of restrictions was not forbidden. The use of reciprocal trade negotiations for the reduction of tariffs was required. Members were forbidden to promise the benefits won under the charter to nonmembers and, after an initial period, to extend them any tariff concessions without I.T.O. approval. Recognition was given to special concessions associated with frontier traffic and customs unions.

The provisions of Chapter V were directed against business practices of commercial enterprises which restrict international trade and thus defeat the purposes of the I.T.O. Among these were combinations, price-fixing agreements, and other tactics associated with cartels. Complaints against such practices were to be heard by the I.T.O. which was then to recommend appropriate remedial action.

Chapter VI recognized the problems of surpluses (usually agricultural in character) that have been handled by intergovernmental agreements. But under the I.T.O., such agreements would have to be considered as having in them the means of bettering the conditions that first made them necessary. They would have to be consistent with the purposes of the I.T.O. and satisfy certain conditions.

The I.T.O. itself (Chap. VII) was to consist of:

A Conference
An Executive Board
A Commission on Commercial Policy
A Commission on Business Practices
A Commodity Commission
A Secretariat
An Interim Tariff Committee

The *Conference* would be the governing body made up of all members of the I.T.O. Each would have one vote, and decisions would depend on a simple majority vote of the members present and voting. The Conference would have final authority to determine policies. It would elect the Executive Board.

The *Executive Board* was to consist of fifteen members elected every three years. Board decisions on executive policy would be reached by the same simple voting procedure. The *Commissions* would consist of experts in their fields appointed by the Board and responsible to it. The chairman of the Commissions could participate, without vote, in the meetings of the Conference and the Board. The Commissions' work would be largely advisory.

The *Secretariat* was to consist of a Director-General, three or more Deputy Directors-General, and an adequate staff. The Director-General would be appointed by the Conference on the recommendation of the Board. He would appoint the Deputy Directors-General, each of whom would be an *ex officio* member of one of the Commissions, but without vote.

The *Interim Tariff Committee*, consisting of members which had fulfilled the requirements of eliminating tariff preferences and fostering reciprocal trade relations, would have the authority to authorize members to withhold tariff reductions from other members who failed to meet their obligations. Committee decisions would be taken by majority vote, each member having one vote. Other members could join the Interim Tariff Committee on fulfillment of their obligations.

The First London Meeting. At the first London meeting the Preparatory Committee considered the drafts of the texts of 89 articles.[23] On two of these (complete state monopolies of imports and relations with nonmembers) it deferred action. On eleven (formal and organizational matters and with indirect forms of protection) it referred the texts to a drafting committee. On two others (voting in the I.T.O. and membership on the Executive Board) it reached no agreement and instructed the drafting committee to work out alternative proposals). But it came to wide agreement on the other 74 articles. Some reservations were recorded on some of the articles by some countries; but on 63 articles there was unanimous agreement.

The London draft completely revised the United States text dealing with quantitative restrictions and exchange control but retained the basic principles and strengthened them. "On balance, it represents a distinct improvement over the previous draft." The London draft followed closely

[23] Clair Wilcox's address before the American Economic Association Convention, Atlantic City, January 25, 1947.

the United States draft on tariffs and preferences. It made some changes in content but not in the spirit of the section dealing with employment. It adopted a new chapter on the economic development of less industrialized nations. But the new draft was written by the United States delegation. The principal difference was the allowance of restrictions on imports in the interest of such countries. The London Conference followed the proposals on the subject of the cartel. It reorganized completely the draft on intergovernmental commodity arrangements but retained "all of the principles and most of the text of the American draft." It followed closely the United States ideas on subsidies, state trading, and the organization of the International Trade Organization.

In January, 1947, the Interim Drafting Committee met in New York. During March, public hearings on the proposed tariff negotiations and the charter were held in seven major cities of the United States to give businessmen and others an opportunity to back or oppose the plans. Hearings were likewise held by the House Ways and Means Committee and the Senate Finance Committee.

Present Status of the Proposed I.T.O. On April 8 the Geneva Conference began its twofold task of reciprocal negotiation to reduce tariff barriers and of adoption of the charter for the I.T.O. in its final form for submission to the delegates of sixty nations meeting in Havana in the fall of 1947. On August 22 the draft form was adopted unanimously by the delegates of seventeen nations, representing more than 60 per cent of world trade. Since the document is 4,000 words in length, its consideration is expected to be a lengthy one, requiring possibly all of the remainder of 1947 and extending on in to 1948. An Australian spokesman has termed the draft charter "a skeleton" and has pointed out that "it remains for the governments of the world to put flesh upon its bones and breath in its nostrils." If the Havana meeting reacts favorably, there is some possibility that the year 1948 will mark the founding of the I.T.O. Thus far, the plans of its proponents have moved exactly on schedule; and their dream is that the plans will reach fruition in that year or in the year following.

Opposition to the Proposed I.T.O. It is impossible at this time to predict how much opposition the I.T.O. proposal will encounter and whether it will be ratified by our Senate and the ratifying authorities of other countries. It is almost axiomatic that the more unanimity shown by the delegates to an international conference, the less unanimity is found among the ratifying authorities. Already something of the tone of the opposition has been sounded by Representative Mason of Illinois who pictures it as a plan that "will destroy freedom of enterprise" and "force national planning." Furthermore he charges:

A planned world economy, administered by an international authority under the UNO, will bring about world competition between unequal standards of living; it will mean that we will have to accept a lower standard of living in America in order that other peoples may be able to raise their standards of living. This is an application of New Deal economy on a world scale—a redistribution of the world's wealth in favor of the underprivileged nations, a plan to impose upon the trade of the world a collectivist system. American voters repudiated the New Deal economy for America. Must they—the American farmer, the American laboring man, the American business man—now accept a program of New Deal economy on a world scale and have their standards of living lowered to fit such a world economy?

The program, outlined in the proposed ITO, to socialize the wealth of the world, is based upon the theory that poverty anywhere in the world endangers prosperity anywhere in the world; therefore prosperity, wherever it may exist, must be shared. Since American prosperity is the only prosperity in the world today, it follows that American prosperity is to be shared and distributed. The price we must pay, if we agree to this international share-the-wealth program, is a lowered standard of living for our people. Do we want to pay the price?

Mr. Speaker, Communist economic doctrine is summed up in the well-known phrase, "from each person according to his ability; to each person according to his needs." It is a high-sounding, Christianlike phrase, a beautiful goal that can only be reached in some future idealistic, make-believe world. Communism in theory is heaven on earth; communism in practice is hell on earth.

Now comes the proposed ITO and adopts the same well-known Communist economic doctrine but expresses it in a new international phrase, "from each nation according to its ability; to each nation according to its needs."

"Well, what is wrong with that?" you ask.

Our answer is that we did just that during the war—even before we entered the war—in our dealings with our allies. The result was that we shared with our allies our resources, our products, our food, in the amount of over $100,000,000,000; and while doing so mortgaged Uncle Sam to the tune of $280,000,000,000—a greater national debt than the total national debts of all the countries of the world put together. Shall we now in peacetime continue to hand out to all nations according to their needs, and load upon the backs of our taxpayers additional world burdens? This, in substance, is what President Truman proposes to do. It is the exact program, the purpose, and the objective of the International Trade Organization that President Truman urges us to enter, to become a part of. He says, "The negotiations at Geneva must not fail." I say the negotiations at Geneva must not succeed if the future of America is to be considered and protected.[24]

The Geneva Reciprocal Trade Agreements. The successful completion of the tariff negotiations at Geneva was announced on October 30, 1947, and the content of the agreements was made public on Novem-

[24] Noah M. Mason of Illinois, *Congressional Record*, Appen., March 10, 1947, pp. A 963–64.

ber 18. Some idea of the vastness of this achievement may be obtained from comments[25] made by Clair Wilcox, who served as the vice-chairman of the United States delegation. He pointed out that it was not only the longest economic conference in the history of the world, having actually started on October 15, 1946, but also the most complicated one. Simultaneously six conferences were being carried on, as well as 108 bilateral tariff negotiations. The latter figure is interesting. Since there were 16 customs areas negotiating, the total number of possible pairs would have been 120 (16 times 15, divided by 2). Of this number, 108 actually materialized. In the other 12 cases, the pairs of countries had no substantial trading relations. There were 93 cases of pairs of countries getting together to reduce their tariffs with each other in which we did not participate at all. But since all the reductions in those tariffs in 93 contracts become generalized through the most-favored-nation clause, we get the benefits of lower rates when we sell such items to any of these countries.

The agreements, which go into effect on January 1, 1948,[26] are those with the United Kingdom, Canada, Australia, France, and the Benelux customs union (Benelux, being a contraction of Belgium, the Netherlands, and Luxemburg). Others, calling for special action by governments, will become effective not later than June 30, 1948. Altogether, 23 nations, including dominions and colonies, are involved. The agreements, which affect 60 per cent of the United States trade, bring the tariff level to the lowest point in 34 years—somewhere near the level of the Underwood Tariff of 1913.

The total concessions, including reductions, bindings against increase, and retention on free lists, run into many thousands. Those granted by the United States alone cover some 45,000 items, whose listing and description cover 1,350 pages. The agreements cut down British preference by abolishing some of the special rates entirely and reducing others. They may be renounced by any country after two-and-a-half years on a notice of six months. This means the program has a good chance of proving its worth over a three-year period. Moreover, it should be pointed out that,

[25] *Report of Geneva Trade and Tariff Negotiations* (Washington, D.C.: Department of State, Office of Public Affairs, October, 1947, mimeographed release). Dr. Wilcox remarks: "Before we started this process, we were told that it was physically impossible to do it; that you just could not schedule the meetings; that you could not get the people to sit down together; that you could not run 114 conferences at once, but it has been done and it has been done at a juncture in the history of the world when the prospects for success, I should think, are as black as they could be" (p. 5).

[26] The text of the General Agreement on Tariff and Trade, together with the accompanying schedules, has been published in four volumes (priced at $5.00) by the United Nations and is available at the United Nations sales section, Lake Success, Long Island, New York, or the International Document Service, Columbia University Press, 2960 Broadway, New York, N.Y. An analysis of the agreement has been published by the Government Printing Office, Washington 25, D.C. The price is $0.50.

even if the I.T.O. should fail to become effective through lack of sufficient ratifications, at least 23 areas will be fulfilling all of its commercial policy provisions.

The Marshall Plan for Reviving Europe. On June 5, 1947, Secretary of State George C. Marshall delivered a speech at Harvard University in which he pointed out the need for the rehabilitation of Europe. After describing the chaotic conditions so widespread in that area and the implications for the world at large, he made the following comment, which was to become the basis for a plan of action:

> It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It will be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all, European nations.[27]

A few days later, Mr. Marshall explained that in speaking of Europe he meant the entire continent west of Asia, including the United Kingdom and the Union of Soviet Socialist Republics.

On June 16, Mr. Ernest Bevin, the British foreign secretary, visited M. Bidault, the French foreign minister, in Paris to act upon Mr. Marshall's suggestion. They sought the co-operation of the Soviet Union; but discussions with Russia's foreign minister, V. Molotov, which began on June 27, accomplished nothing. As a result, Messrs. Bevin and Bidault issued invitations to all the other countries of Europe (except Spain) to attend a conference in Paris. Fourteen countries sent representatives—Austria, Belgium, Denmark, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, and Turkey. Together with the two sponsoring countries, these sixteen nations met under the chairmanship of Mr. Bevin (July 12–16) and set up a number of committees to give expression to the policies endorsed by the conference. Working committees included one on economic co-operation and technical committees covering food and agriculture, fuel and power, iron and steel, transportation, timber, man power, and balance of payments. There was likewise a committee of financial experts charged with the examination of means of removing financial obstacles to intra-European trade.

[27] The full text of the speech may be found in *World Report*, June 17, 1947.

The findings of these committees helped the formulation of a report which pictured the needs for Europe, including western Germany, over the four-year period, 1948–51. Popularly known as the "Marshall Plan,"[28] the report states in part that

> the participating countries have defined the economic and financial problems facing them and have reviewed (1) the production targets which they have set for themselves; (2) the steps which are being taken and will be taken to bring about internal stabilization; (3) the measures which the participating nations will take through combined or co-ordinated action to solve production problems, provide for the free and efficient flow of goods and labor, and insure the full use of their resources; and (4) the problem presented by the participating countries' and Western Germany's balance of payments deficit with the American continent.

The report was unusual for its matter-of-fact approach, its outspokenness, and its lack of embellishment. It gave full recognition to the interrelated character of the economic systems of the participants and enunciated the maxim that "the prosperity of each of them depends upon the restoration of the prosperity of all." It expressed appreciation for the past aid tendered by the United States, but indicated the need for additional external assistance to bring about the contemplated recovery. It contained the pledge of the participants: "To co-operate with one another and with like-minded countries in all possible steps to reduce the tariffs and other barriers to the expansion of trade both between themselves and with the rest of the world, in accordance with the principles of the draft for an international trade organization."

The plan envisages these accomplishments by the end of 1951: the restoration of pre-war bread-grain and other cereal production; large increases above pre-war production in sugar and potatoes; some increases in oils and fats and livestock products. The output of coal is to increase to 584,000,000 tons, which would exceed the 1938 level by 30,000,000 tons. The output of electricity is to reach a level two-thirds above pre-war; that of oil refining is to exceed pre-war by two and a half times. Crude steel production is pictured as exceeding the output of 1938 by 20 per cent; and transportation facilities are to be rebuilt to carry a load 25 per cent greater than in 1938. Merchant fleets are to reach their pre-war status by the end of 1951 as well.

While declaring that this report is in no sense a "shopping list" of the goods needed to restore Europe, the framers recognized that a four-year recovery plan would be conditioned on obtaining supplies from the United States and the rest of the nonparticipating countries. In terms of

[28] The full text of the plan may be found in *World Report,* October 7, 1947, pp. 28–47.

the price level on July 1, 1947, the participating countries would buy \$6 billion worth of goods and supplies from the United States in 1948; \$5.3 billion in 1949; \$4.8 billion in 1950; and \$4.3 billion in 1951. They would purchase an additional \$7.9 billion from other nonparticipating countries in 1948; \$9.2 billion in 1949; \$9.7 in 1950; and \$10.1 in 1951. The commodities which would be purchased would consist essentially of food, fertilizer, coal, petroleum products, iron and steel products, timber, and agricultural machinery. In addition, purchases would be made of production goods such as electrical equipment, steel plants, equipment for petroleum and timber production, and inland transportation.

While not undertaking to work out a plan of payment, the framers of the report suggest the growth of exports from the participating countries and loans from the World Bank, as well as tourism and other services. In other words, the risk of payment is tied up with the chance that such purchases as Europe makes will restore her equilibrium and enable her to meet her obligations. The fate of the Marshall Plan rests with the future. Not only may world conditions in general interfere with its implementation, but the action of the United States Congress may cause the abandonment of the plan or its sharp modification. It is hardly to be expected that the details of the plan will remain unaltered even if the basic soundness of the over-all policy is recognized.

One other significant part of the plan has to do with customs unions, which are devices for forming wider free-trade areas, yet retaining the political sovereignty of the participating countries. While pointing to technical problems raised by customs unions and their shortcomings as panaceas, the report states: "Nevertheless, the idea of a customs union including as many European countries as possible is one which contains important possibilities for the economic future of Europe and it is in the general interest that the problems involved should receive careful and detailed study by governments."

Some progress has already been made along these lines. The customs union of Belgium, Luxemburg, and the Netherlands, formulated in London on September 5, 1944, and given final form on March 14, 1947, is to go into effect on January 1, 1948. The plan provides for identical rates on duties on imports and is pictured as a forerunner of an economic union between the three countries. Preliminary steps toward removing, wholly or partly, customs frontiers between Denmark, Iceland, Norway, and Sweden were taken at a meeting of foreign ministers during August of 1947.

At the Paris meeting which led to the report on the Marshall Plan, the Belgian-Luxemburg-Netherlands group agreed to serve as sponsor for a study group to examine the possibilities of a customs union or customs unions between any and all of the sixteen countries represented. In this

connection, the French government made the following truly historic declaration, in which the Italian government concurred:

THE FRENCH GOVERNMENT

Being of the opinion that the barriers which now exist in the way of a freer exchange of goods and capital, and of a freer movement of persons between the various European countries, constitute one of the most important obstacles to the economic recovery of these countries;

That in the present state of the world only economic units sufficiently large to have at their disposal an important home market are able to lower the price of industrial and agricultural production sufficiently to insure, thanks to better technique, an improved standard of living for their people and to allow the countries concerned to withstand world-wide competition;

That the present division of Europe into small economic units does not correspond to the needs of modern competition and that it will be possible with the help of customs unions to construct larger units on the strictly economic plane;

That these units must not be in any way "autarchic" in character but on the contrary should increase their trade to the utmost with all other countries or economic groups of countries of the maximum degree;

That the formation of such customs unions is foreseen in the draft charter for an international trade organization;

Declares that it is ready to enter into negotiations with all European governments sharing these views who wish to enter a customs union with France and whose national economies are capable of being combined with the French economy in such a way as to make a viable unit;

It will be necessary for the formation of such unions to be spread over a period of years long enough to allow for the necessary adjustments, so that the agricultural and manufacturing activities in the contracting countries do not have to suffer a sudden change in the conditions in which they at present operate;

The starting point for their period of establishment should be fixed by mutual agreement as from the moment when the contracting countries have succeeded in achieving internal economic and monetary stability.

In the course of this period, steps will be taken progressively to achieve the customs unions contemplated by the reduction of tariffs and the elimination of quantitative restrictions.

THE FRENCH GOVERNMENT

Considers, furthermore, that the achievement of the foregoing would be greatly hastened and eased by such external help as Europe may be in a position to obtain in order to re-establish equilibrium in its economy and finances.[29]

The Greek and Turkish governments likewise declared their interest in establishing a customs union between them.

[29] This declaration is included as a part of the report on the Marshall Plan.

Some Speculations about the Future. In a recent speech, during which former Prime Minister Churchill revived his idea (expressed fifteen years earlier) for a United Europe, Europe was pictured as "a rubble heap, a charnel house, a breeding ground of pestilence and hate," and as a place where "ancient nationalistic feuds and modern ideological factions distract and infuriate the unhappy, hungry populations." He raised this question: "Are the states of Europe to continue forever to squander the first fruits of their toil upon the erection of new barriers, military fortifications and tariff walls and passport networks against one another?" His answer to the effect that Europe still has much to offer civilization presupposes, however, the establishment of "a peaceful and united Europe, ... a unity of all nations of all Europe," and a "United Europe" to form one major regional entity in the framework and subject to the world supremacy of the United Nations Organization.

It is interesting that a concurrent resolution introduced in the House of Representatives by Mr. Boggs of Louisiana and Senator Fulbright of Arkansas runs along the same line: "The Congress hereby favors the creation of a United States of Europe within the framework of the United Nations." This resolution and the Churchill plan, it might be added, received very warm support from a number of newspaper editors.

This general line of thought along political lines suggests numerous possibilities for improved and freer international economic relationships—changes in tariffs, quotas, exchange controls, and the many other restrictions now standing in the way of trade. The possibility of the creation of a "United Europe" or a "United States of Europe" is remote enough to raise the question as to what the future might hold.

From an international economic point of view, there are four possible courses. The first is to follow a path similar to that which the world followed after World War I—a few years of earnest desire to escape the pitfalls of extreme nationalism, followed by disillusionment, a return of high tariffs, a world-wide depression, the erection of strangling barriers against trade and finance, an era of extreme nationalism, and war. Of course, no one advocates this as a course to follow. Yet, there are enough elements in the picture today that are strikingly similar to those of twenty-five years ago to suggest that this first path open.

The second possibility is to follow the path suggested by the Atlantic Charter, the United Nations Organization, the Bretton Woods Agreements, the reciprocal leveling of tariffs, and the International Trade Organization or whatever similar international bodies may be constituted. This is the path that many people believe will keep down the number of international grievances and prevent any one of them from reaching the proportions of war.

The third path is along the lines of Churchill's United Europe men-

tioned above. Granting the assumption that wars start in Europe, it is conceivable that a Europe housing one political unit (if this is the meaning of Churchill's "one major regional entity") would add much to world stability. It is noteworthy that such is the uncertainty in the world today that some say that Russia would not tolerate a strong European entity while equally well-informed persons take the position that Russia would welcome this solution of the European problem.

The fourth path would have as its terminal the union of all democracies, the world over, as envisioned by Mr. Streit in his plan for a world federation. A latchstring would be out for all nations as they embraced the principles of democracy.

Assuming that the world does not want to march down the first path, which will lead to war, and that it is not ready to follow the third or fourth paths, it should follow the second. This path has the merit of disturbing world forces to a minimum degree and making use of such firmly grounded concepts as will keep civilization moving forward.

SUMMARY

Commercial policies seem to move together toward freer trade and then, on occasion, toward restriction. This pendulum-like phenomenon is not accidental. Nations follow the examples of others, sometimes through conviction and sometimes for purposes of retaliation. More or less well-defined periods may be noted during which tariffs move downward or upward sharply. One force making for freer trade has been the commercial treaty. Hundreds of them have been entered during the years. Some have been bilateral, others multilateral. Another force has been the international conference. This force has been successful at times (the Pan-American Conferences) and unsuccessful at others (World Conference of 1933).

Proposals have been made to reduce the need for restrictions by changing sovereign relations through the forming of a "United States of Europe" or a "Federal Union of the Democracies." Other forces making for a freer flow of trade include the Bretton Woods Monetary Agreements of 1944 and the United Nations Organization. The proposed International Trade Organization has the same goal.

QUESTIONS FOR DISCUSSION

1. How do you account for the fact that commercial policies tend to move together in more or less definite trends toward or away from free trade?
2. What has the stage of industrial development to do with a nation's commercial policies?
3. From the point of view of commercial policies and international trade, into what six periods can the years from the inception of the industrial revolution to the present be divided?

4. How do you account for the significant tariff increases during the decade following World War I?
5. What role have commercial treaties played in the development of movements toward freer trade? What conclusions are reached by Richard C. Snyder from his study of commercial treaties entered into by the United States between 1931 and 1939?
6. What were the purposes behind the convention of the World Economic Conference of 1927? What proposals were made by the conference? How effective were they?
7. What developments led to the World Monetary and Economic Conference of 1933? How successful was the conference? Why?
8. What proposals have been made for the attainment of freer trade through the modification of sovereignty? Evaluate each of these.

APPENDIXES

APPENDIX A

THE PENNSYLVANIA TARIFF ACT OF 1785

The Pennsylvania Tariff Act of 1785 listed the following rates:

coach, chariot or landau or other carriage having four wheels £20.
chaise, chair kittereen, curricle, or other carriage having two wheels £10.
every clock 30*s*.
every dozen packs of playing cards 7*s*. 6*d*.
every dozen reaping hooks and sickles 12*s*.
every dozen scythes, except Dutch and German 15*s*.
every cwt. of refined sugar 8*s*. 4*d*.
every gallon of beer, ale, porter, and cider 6*d*.
every dozen bottles of beer, porter and cider 4*s*.
all malted barley or other malted grain 5% ad valorem
all salted or dried fish /cwt. 7*s*. 6*d*.
every cwt. of cheese and butter 8*s*. 4*d*.
all beef 2% ad valorem
all pork 5% ad valorem
every pound of soap, except castile soap, 1 penny
every pound of chocolate 4*d*.
every pound of candles, of tallow or wax, 1 penny
every pound of glue 2*d*.
every pound of starch or hair powder, 1 penny
all hulled barley, dried peas, mustard 10%
all manufactured other snuff 6*d*./lb.
every pound of snuff, including the bottles, canister or other package 1*s*.
all lamp black, cotton and wool cards, manufactured leather, pasteboards, parchment, writing paper, printing, wrapping and sheathing paper, and paper hangings 10%
every pair of men's and women's leathern shoes 2*s*.
every pair of women's silken shoes or slippers 2*s*. 6*d*.
every pair of women's stuff shoes or slippers 1*s*.
every pair of boots 5*s*.
every saddle for men's or women's use 12*s*. 6*d*.
every ounce of wrought gold 20*s*.
every ounce of wrought silver 2*s*.
all utensils and vessels of pewter, tin, or lead, upon all wrought copper, brass, bell-metal and cast iron 10%
all British steel 10%
all slit iron, nail rods and sheet iron 10%

all garments ready made, for men's or women's wear, including castor and wool hats 10%

every beaver hat 7*s*. 6*d*.

all blank books, bound or unbound 10%

all tarred cordage, yarns or fixed riggings 8*s*. 4*d*./cwt.

all white ropes, log lines, twine and seins 12*s*. 6*d*./cwt.

all polished or cut stones in imitation of jewelry, chimney pieces and tables, and other polished marble; upon all cabinet or joiner's work, horsemen's whips, carriage whips, walking canes, musical instruments and instruments used in surveying 10%

all stone and earthen ware 10%

all panes, plates, vessels and utensils of British glass 2½% ad valorem

all teas imported from Europe or the West Indies, viz: upon every pound of Hyson tea, 6*d*.; upon every pound of all other tea, 2*d*.

all rum imported in any vessel belonging to any foreign state or kingdom, 6*d*. for every gallon thereof and the like sum upon all rum imported into this state by land or water from any of the United States except it should be made to appear by the oath of exporter, certified by the collector of the port from whence it may be last shipped, that it was distilled in the state from whence it be imported, or that it has been imported into that state by vessels belonging to the United States.

upon all wines and fruits being the growth of the kingdom of Portugal, or of the territories thereunto belonging, viz: upon all wines, 1*s*. for every gallon thereof; upon every box of lemons, 5*s*.; upon every cwt. of raisins, or other fruit, 7*s*. 6*d*.; the said duty to continue so long as the flour of America is prohibited from being imported into the kingdom and territories aforesaid.

upon every ton of shipping belonging in whole or in part to any foreign nation or state whatever, except such as the honorable Congress of the United States have entered into treaties of commerce with, 7*s*. 6*d*. for every ton thereof, carpenter's measure, for each and every voyage.

all ready-made sails 10%

all testaments, psalter, spelling books and primers, in the English and German languages; upon all romances, novels and plays, 15%

upon all bone and tortoise shell combs 5%

all saddle trees 10%

all linens made of flax 2½%

and be it further enacted by the authority aforesaid, That all tin in pigs, and tinned plates, lead, pewter, brass, copper, in pigs and in plates, cocoa, molasses, sheep's wool, cotton, wool, hemp, flax, all dyeing woods and dyeing drugs, whale oil and other fish oil, skins and hides, shall be from and after the passing of this act, exonerated and discharged of all impost and duty upon the importation of them, or any of them, from any place whatsoever; and that the cwt. hundred avoirdupois, containing one hundred and twelve pounds

additional impost of 5% on all manufactures of refined iron, or refined steel,

of steel not otherwise specially rated, excepting wires, files, tinned plates, Dutch and German scythes and cutting knives

impost of 7½% on all foreign made carpenter's work, blacks for shipping, sheeves for ship use, all foreign leathers, as well tawed as tanned leathers, and not otherwise hereinbefore rated and charged, and upon all turner's wares.

Appendix B

STATEMENT OF 224 ECONOMISTS IN SUPPORT OF BRETTON WOODS PROGRAM, SEPTEMBER 12, 1945, ADDRESSED TO THE CHAIRMEN OF THE BANKING AND CURRENCY COMMITTEE OF THE SENATE AND THE HOUSE

We, the undersigned economists, urge the Congress to accept the "Bretton Woods" agreement providing for an International Monetary Fund and International Bank for Reconstruction and Development. Our main reasons follow:

1. If expanding international trade is to make its much needed contribution to the prosperity of the United States and of the world, exchange relations between currencies must be established on a stable and orderly basis and there must be a steady flow of international investment to increase the productive efficiency of the countries of the world. Action is, of course, required in other no less important fields such as trade barriers and commodities in world surplus. Although the Monetary Fund and the International Bank do not furnish a complete solution to the international economic problems, they will contribute substantially towards solving the exchange and investment problems.

2. The experience of the interwar period has demonstrated that neither the operation of the international gold standard nor the independent action of national governments will achieve workable exchange arrangements. The nineteenth century gold standard is too inflexible to allow countries the independence of domestic action which they now demand; and the policy, so widely followed in the thirties, of disregarding international considerations in order to achieve freedom of action in the domestic sphere only served to contract international trade and, in the end, to make every country poorer.

3. In the field of investment, the last twenty-five years have shown the need for international action. While international investment did reach a substantial volume during the twenties, the investment was in many cases ill-advised; rates of interest were high and many countries resorted to borrowing in order to balance their international accounts without increasing their productive capacity. The collapse of the thirties brought repudiation, deflation or depreciation, and many borrowers and lenders resolved to eschew the dubious benefits of international investment in the future. Conditions of foreign lending must be substantially improved if international investment is again to make its indispensable contribution to the prosperity of the world economy on which, to a large degree, our own welfare depends.

4. The proposed Monetary Fund provides a program for avoiding competitive currency depreciation, the arbitrary and discriminatory control of foreign exchange available to pay for current imports, the "freezing" of funds due for

current transactions, and related forms of economic warfare. This is in line with the fundamental United States trade policy of free enterprise with a minimum of administrative interference, discrimination, bilateralism, and international "barter." The Bretton Woods Agreements are essential to keep the door open for later application of this fundamental policy through international negotiations dealing with tariff discriminations, "administrative protection," import quotas, cartels, raw material controls, etc. The clauses in Bretton Woods Agreements which permit limited devaluation, continued control of capital movements, "rationing" in emergencies of particular currencies officially declared to be scarce, and a gradual removal rather than abrupt termination of wartime currency and exchange controls are necessary modifications for reaching the fundamental objectives.

5. The proposed Bank for Reconstruction and Development aims at increasing security of international lending, not merely through the Bank's guarantee, but by making the government of the borrowing country directly responsible to the Bank. Since the Bank rather than any particular government is made the direct representative of creditors, the debtor country's government can be called upon to take responsibility without loss of dignity or risk of conflict.

6. Under the Monetary Fund, barring outright repudiation of debts by some debtor government, the risk of financial loss is very small. Under the Bank agreement, loans are to be safeguarded not only by the scrutiny of the Bank but by authorizing each government to prevent its currency from being lent if it thinks the transaction dangerous; and under the guarantee, all losses are to be shared among all member countries in proportion to their subscriptions. The advantages of the agreements far outweigh the financial risk incurred by the United States.

7. The good will acquired by accepting the agreements, supported by the influence which the United States can legitimately exert through its large voting power in the Fund and the Bank, will be of great advantage in the settlement of other international issues.

8. Bretton Woods represents the first attempt of the United Nations to reach agreement on vital economic issues. The present drafts could undoubtedly be improved as regards details. But in view of the fact that over forty governments are involved and in view of the complexity of the problem, the extensive concessions made by others to the United States at Bretton Woods, and the ill will we would incur by insisting on reservations, it is very doubtful whether another agreement could be reached at all or, if reached, whether in the end it would be a better one. If the present proposals were not ratified by the leading countries of the world, the outlook for genuine international collaboration in the economic field and even for world peace would be indeed gloomy. It is therefore a matter of urgent necessity that full support be given to the agreements by all United Nations.

[The original sponsors were Professors Angell, Black, Clark, Condliffe, De Haas, Ellis, Ellsworth, Galbraith, Gideonse, Graham, Griffin, Haber, Haberler, Harris, Hart, Hoover, Knight, Leontief, Machlup, Mason, Mitchell, Newcomer, O'Leary, Preston, Riefler, Simons, Smithies, Snavely, Sprague, Viner, Whittlesey, Wilcox, and Woosley.]

Appendix C

A LIST OF 200 IMPORTS INTO THE UNITED STATES RANKED ACCORDING TO VALUE IN TERMS OF 1940*

Rank	Commodity	Value	Rank	Commodity	Value
1	Crude rubber	$318,469,000	28	Drugs, herbs, leaves, roots	$15,031,000
2	Tin	130,981,000	29	Flaxseed	14,121,000
3	Coffee	126,771,000	30	Art works	14,071,000
4	Raw silk	124,997,000	31	Nuts	13,906,000
5	Standard newsprint paper	124,659,000	32	Industrial chemicals (not elsewhere classified)	13,334,000
6	Cane sugar	113,253,000	33	Spices	13,054,000
7	Unmanufactured wool	84,604,000	34	Molasses	12,800,000
8	Furs	79,608,000	35	Pulpwood	12,194,000
9	Copper	73,326,000	36	Sisal and henequen fiber	11,918,000
10	Wood pulp	60,194,000	37	Unmanufactured cotton	10,630,000
11	Raw hides and skins (except furs)	50,188,000	38	Watches and movements	10,221,000
12	Burlap	45,467,000	39	Unmanufactured asbestos	10,034,000
13	Distilled liquors	44,729,000	40	Bristles	9,684,000
14	Diamonds	44,625,000	41	Coal-tar products	9,034,000
15	Nickel	41,551,000	42	Lead	8,927,000
16	Unmanufactured tobacco	36,722,000	43	Woven wool fabrics	8,840,000
17	Fuel oils and unfinished distillates	33,260,000	44	Chrome ore, or chromite	8,755,000
18	Crude petroleum	32,211,000	45	Shellac and other varnish gums and resins	8,735,000
19	Cocoa, or cacao, beans	32,141,000	46	Coconut oil	8,636,000
20	Bananas	29,085,000	47	Fabrics of flax, hemp or ramie	8,418,000
21	Fish	29,074,000	48	Wines	8,113,000
22	Fertilizer materials	27,202,000	49	Sausage casings	7,931,000
23	Sawed boards and other lumber	23,684,000	50	Wheat by-product feeds	7,890,000
24	Tea	22,689,000	51	Copra	7,817,000
25	Tung oil	20,274,000	52	Carnauba wax	7,808,000
26	Manganese ore	18,399,000	53	Cheese	7,516,000
27	Cattle	17,977,000	54	Shingles (wood)	7,019,000

* Chamber of Commerce of the United States, *Our 100 Leading Imports* (Washington, D C., 1945).

A LIST OF 200 IMPORTS INTO THE UNITED STATES RANKED ACCORDING TO VALUE IN TERMS OF 1940—*Continued*

Rank	Commodity	Value	Rank	Commodity	Value
55	Tapioca, cassava, and other farinaceous substances	$6,971,000	81	Palm oil	$4,574,000
56	Canned beef	6,911,000	82	Oats	4,466,000
57	Pottery	6,800,000	83	Crude bauxite	4,299,000
58	Olive oil	6,781,000	84	Pineapples, prepared or preserved	4,295,000
59	Fresh and dried vegetables	6,530,000	85	Crude chicle	4,239,000
60	Cotton wearing apparel	6,528,000	86	Platinum ores, ingots, etc.	3,956,000
61	Essential oils	6,406,000	87	Quebracho extract	3,932,000
62	Iron ore and concentrates	6,211,000	88	Cobalt ore and metal	3,868,000
63	Cotton cloth	6,118,000	89	Hats of straw, grass, etc.	3,784,000
64	Jute and jute butts	6,103,000	90	Wool wearing apparel	3,757,000
65	Wheat	6,100,000	91	Jelutong and guttas	3,755,000
66	Books and other printed matter	5,819,000	92	Zinc ore and metal	3,738,000
67	Wool noils, waste, rags, and tops	5,718,000	93	Agricultural machinery and implements	3,689,000
68	Tungsten	5,714,000	94	Silk fabrics	3,687,000
69	Olives in brine	5,674,000	95	Cork waste, shavings, etc.	3,684,000
70	Leather	5,665,000	96	Cigars and cheroots	3,433,000
71	Castor beans	5,665,000	97	Coal and coke	3,426,000
72	Wool carpets and rugs	5,646,000	98	Paraffin and paraffin wax	3,222,000
73	Manila, or abaca, fiber	5,497,000	99	Jute bags or sacks	3,020,000
74	Crude artificial abrasives	5,268,000	100	Rags and other paper stock	3,015,000
75	Linen handkerchiefs	5,043,000	101	Straw hat materials	2,940,000
76	Logs	5,003,000	102	Cigarette paper, books, and covers	2,939,000
77	Cotton laces and lace articles	4,918,000	103	Crude feathers	2,904,000
78	Aluminum	4,737,000	104	Dyeing and tanning materials, except quebracho extract	2,815,000
79	Rayon or other synthetic textiles	4,664,000	105	Vegetables, canned, prepared, or preserved	2,764,000
80	Medicinal and pharmaceutical preparations	4,604,000	106	Precious stones, except pearls and diamonds	2,747,000

A LIST OF 200 IMPORTS INTO THE UNITED STATES RANKED ACCORDING TO VALUE IN TERMS OF 1940—*Continued*

Rank	Commodity	Value	Rank	Commodity	Value
107	Cotton floor coverings	$2,695,000	133	Animal hair, other than horse and cattle	$1,374,000
108	Cork wood or bark, unmanufactured	2,618,000	134	Bulbs, roots, and corms	1,360,000
109	Cod-liver oil	2,521,000	135	Pyrites, or sulphide of iron	1,351,000
110	Musical instruments and parts	2,520,000	136	Ferromanganese and other alloys	1,338,000
111	Mica	2,465,000	137	Cryolite, or kryolith	1,330,000
112	Seeds, except oil seeds	2,373,000	138	Gypsum or plaster rock, crude	1,300,000
113	Glass and glass products	2,312,000	139	Poles and other round or hewn timber	1,276,000
114	Perfumery, perfume materials, and toilet waters	2,208,000	140	Iron and steel semimanufactures	1,271,000
115	Unmanufactured wax	2,175,000	141	Casein or lactarene	1,243,000
116	Antimony ore	2,028,000	142	Watch cases, dials, or parts, except jewels	1,231,000
117	Cotton table damask and manufactures	1,969,000	143	Leather gloves	1,224,000
118	Olive oil, inedible	1,915,000	144	Vanadium ore	1,217,000
119	Fish scrap and meal, other than for fertilizer	1,910,000	145	Coconut or copra feeds	1,215,000
120	Dates	1,874,000	146	Yarns, thread, and twine of flax, hemp, and ramie	1,153,000
121	Binder twine	1,840,000	147	Cordage, except binder twine	1,138,000
122	Jewels for watches, clocks, meters, etc.	1,831,000	148	Mother-of-pearl shells	1,129,000
123	Horse hair, tails, or manes	1,829,000	149	Glue stock, hide cuttings, etc.	1,120,000
124	Hops	1,813,000	150	Beeswax, crude, and other animal wax	1,092,000
125	Tankage, other than for fertilizer	1,809,000	151	Cotton waste	1,073,000
126	Platinum metals and native combinations	1,793,000	152	Dolls and toys, except rubber	1,059,000
127	Horses, for breeding, and other	1,710,000	153	Whale oil	1,055,000
128	Tragacanth	1,692,000	154	Pineapples, fresh	1,038,000
129	Sensitized photographic films, not exposed	1,651,000	155	Textile machinery	1,031,000
130	Barley and barley malt	1,640,000	156	Boots and shoes, leather	1,026,000
131	Kapok	1,570,000	157	Babbitt metal, solder, etc.	1,026,000
132	Flat wire and steel strips	1,485,000	158	Maple sugar and sirup	1,023,000

A LIST OF 200 IMPORTS INTO THE UNITED STATES RANKED ACCORDING TO VALUE IN TERMS OF 1940—*Continued*

Rank	Commodity	Value	Rank	Commodity	Value
159	Human hair and manufactures	$1,022,000	181	Corn	$647,000
160	Electric lamps, incandescent	988,000	182	Trucks, busses, passenger automobiles, and parts	634,000
161	Cotton bedspreads and quilts	973,000	183	Poppy seed	621,000
162	Cotton yarns and warps	972,000	184	Cottonseed oil cake and meal	609,000
163	Beef, fresh	970,000	185	Agar-agar	606,000
164	Athletic and sporting goods	964,000	186	Sponges and manufactures	589,000
165	Silk waste and cocoons	934,000	187	Kadaya (karaya) and talka	585,000
166	Gum arabic or senegal (acacia gum)	922,000	188	Cotton tapestries	583,000
167	Graphite or plumbago	891,000	189	Pearls and parts, not strung or set	580,000
168	Tissue paper	890,000	190	Cotton pile fabrics and manufactures	576,000
169	Perilla oil	873,000	191	Magnesite	574,000
170	Kaolin, china, and paper clay	870,000	192	Tracing cloths	572,000
171	Rice, rice flour, and meal	825,000	193	Bamboo and similar woods	560,000
172	Printing paper other than standard newsprint	823,000	194	Waste jute bagging and sackcloth	550,000
173	Imitation precious stones	787,000	195	Eggs, prepared and in the shell	547,000
174	Cameras and parts	782,000	196	Photographic paper	533,000
175	Rapeseed oil, denatured	761,000	197	Cement, roman, portland, and other hydraulic	521,000
176	Mineral earth pigments	720,000	198	Wood laths	516,000
177	Apples, fresh	715,000	199	Pipes and smokers' articles	511,000
178	Wool yarns	710,000	200	Talc, stearite, and french chalk	509,000
179	Istle or tampico fiber	667,000			
180	Needles, hand and other	664,000			

APPENDIX D

INTERNATIONAL TRANSACTIONS OF THE UNITED STATES IN 1946*

(Millions of Dollars)

Receipts:	
Goods and services:	
Goods	$ 12,140
Income on investments	611
Other services	2,513
Total goods and services	$ 15,264
Unilateral transfers	219
Long-term capital:	
Movements of United States capital invested abroad	990
Movements of foreign capital invested in the United States	1
Total long-term capital	$ 991
Total receipts	$ 16,474
Payments:	
Goods and services:	
Goods	$ 5,264
Income on investments	173
Other services	1,949
Total goods and services	$ 7,131
Unilateral transfers	$ 3,329
Long-term capital:	
Movements of United States capital invested abroad	3,992
Movements of foreign capital invested in the United States	341
Total long-term capital	$ 4,333
Total payments	$ 14,793
Excess of receipts (+) or payments (−):	
Goods and services	+8,133
Unilateral transfers	−3,110
Goods and services and unilateral transfers	$+5,023
Long-term capital	−3,342
All transactions	$+1,681
Net flow of funds on gold and short-term capital account:	
Net increase (−) or decrease (+) in gold stocks	$ −623
Net movement of U.S. short-term capital abroad	−293
Net movement of foreign short-term capital in the United States	−883
Net inflow (+) or outflow (−) of funds	$−1,799
Errors and omissions	$ +118

* *Survey of Current Business*, March, 1947.

The goods and services ($15,264,000,000) were paid for as follows: $7.1 billions (46 per cent) by goods and services sold to us; $2.2 billions (14 per cent) through the liquidation of long- and short-term foreign assets including gold; $3 billion (20 per cent) through long- and short-term credit; and $3.1 (20 per cent) through unilateral transfers in kind or money.

The merchandise transactions with foreign countries in 1946 consisted of $7,015,000,000 in private exports and $2,724,000,000 in government exports. In addition, surplus property amounted to $1,594,000,000, and civilian supplies to $554,000,000. Net miscellaneous adjustments of $253,000,000 brought the total merchandise transfer to foreign countries to $12,140,000,000.

The imports consisted of $4,244,000,000 on private account and $692,000,000 on government account. Military purchases abroad came to $196,000,000 in addition. Net miscellaneous adjustments of $132,000,000 brought our total imports to $5,264,000,000.

Receipts from transportation service amounted to $1,815,000,000; from travel $218,000,000; from U.S. government services $161,000,000; and from private services $319,000,000—a total of $2,513,000,000.

We paid out $699,000,000 for transportation; $429,000,000 for travel; $460,000,000 for government services. Private individuals paid out $106,000,000—a total of $1,694,000,000.

Gifts and other unilateral transfers consisted of $161,000,000 in straight Lend-Lease; $1,522,000,000 for U.N.R.R.A.; $554,000,000 for civilian supplies for occupied countries; $294,000,000 for other government transfers; and $798,000,000 in the form of personal and institutional remittances—a total of $3,329,000,000.

Foreign countries sent us a total of $219,000,000 in this classification—$94,000,000 from governments and $125,000,000 from private interests.

United States long-term capital sent to other countries in 1946 was divided as follows: Lend-Lease credits $546,000,000; surplus property $860,000,000; Export-Import Bank $971,000,000; International Bank and Monetary Fund $323,000,000; British loan $600,000,000; and other funds $19,000,000—a total of $3,319,000,000 of government funds. Private investments came to an additional $673,000,000.

Long-term capital movements into this country totaled $990,000,000. Of this, $911,000,000 was private capital and $79,000,000 came from governments.

INDEX

INDEX

I

J

U